

The Artcled....

u'r Altitude is determined by u'r Attitude

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Limited Liability Partnership - 2

Audit of International Transactions - 4

Section 80 C : Savings and Investments -7

Deferred Taxes - 11

Dual Option or Dual Registration-13

Carbon Emission - 14

Project Report Preparation - 19

Editorial

GOAL is nothing but Greater Opportunity for Access and Learning. A goal consists of a projected state of affairs which a person plans or intends to achieve or bring about the desired end-point in some sort of assumed development. Many people endeavor to reach goals within a finite time by setting deadlines. It helps in short term motivation in the right spirit and a long term vision to have a clear foresighted view. It helps us to organize the optimum utilization of the available resources.

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1



LIMITED LIABILITY PARTNERSHIP



Mr. Birla wants to start off a business and he is quite apprehensive about entering into a Partnership Firm. The reason being his liability is unlimited and his personal assets would be into a danger. And the Capital requirement is not substantial enough to start off a Company too. He is running out of options???? The answer is contained in a new concept of Limited Liability of Partnership.

The preamble states that it is a Bill "to make provisions for the formation and regulation of LLP and for matters connected therewith or incidental thereto". The Limited Liability Partnership bill was introduced in the Rajya Sabha on December 15, 2006. It has now been referred to a special parliamentary committee.

It provides the benefit of limited liability to partners and is viewed as an alternative corporate business vehicle. LLP would enable promotion to joint ventures and agreements among small enterprises which will enable access to technologies and bring together synergies to face the global competitions which would result in efficiency in professional services and statutory supervision of corporate processes.

The bill basically highlights four types of models. They are the sole proprietorship concern, a public limited company, a private company and the last, is the one proposed in the bill i.e., **Limited Liability Partnership (LLP)**. LLP is a hybrid between a limited liability company and a partnership firm. Under this model, the liability of partners of an LLP will be limited to the extent of investment made by them in the LLP.

LLP is likely to benefit SMEs as lot of venture capitalists and individuals will be encouraged to invest in them. But there some flaws, the biggest is that the proposed LLP Bill is, in some ways, similar to the Companies Act.

The trend created on LLP in various countries like UK, USA, Australia, and Singapore is to be taken into consideration. LLP is a form of business entity, which allows individual partners to be restricted from joint liability of partners in a partnership firm. Currently, this LLP bill is in form of mini companies act. LLP concept is a great relief to the partners, particularly professionals like Company Secretaries, Chartered Accountants,

Cost Accountants, Advocates and other professionals.

These professionals may also form multi-disciplinary LLPs to meet the changing economic environment. To meet the global competition, the GOI should create a facilitating environment for entrepreneurs, service providers and professionals. In addition to this, it is need fro an hour to make suitable changes in the provisions of income tax related with the taxations issues, because taxation is one of the major factors other than limited liability for the partners of LLPs.

Salient features of LLP:

- Perpetual Succession
- Separate legal entity and third parties will contract with the firm rather than with individual partners.
- Minimum of two partners and no restriction with regard to maximum number of partners.
- Every partnership will have at least two designated partners of which one shall be a resident of India. The designated partners will be liable to all acts, compliances and penalties for non-compliances.
- A partner shall not be personally liable for the wrongful acts or omission of any other partner except in the case of unauthorized acts, fraud and negligence and therefore the Liability of the partners of an LLP will be limited to the extent of investment made by them in the LLP. An obligation of the LLP whether arising in contract or otherwise, is solely the obligation of the LLP. The liabilities of the LLP shall be met out of the property of LLP."
- The mutual rights and duties of the partners of an LLP shall be governed by a registered agreement between partners or between the LLP and the partners.

The LLP's existence as a corporate entity means that the effect of the general law is different from its effect on a partnership. In general Partnership Act, a partner contracts as a principal and on behalf of other partners in the firm, whereas in LLP, the third party usually will contract with LLP and not the members of LLP.

The Limited liability partnership will be a separate legal entity with which the client has contracted; only one action (the tort action) is potentially available against the member.

The Bill is as complicated as the Companies Act which takes away the benefits of having a new and simpler business model. Under the LLP Bill, registration of companies is a very lengthy and tedious process. Also, inspection and investigation of companies is a concept that has been borrowed from the Companies Act.

The proposed Bill also requires LLP companies to file statement of solvency every year in addition to statement of accounts. This is an additional burden which has been imposed on LLP companies. At present, even public and private companies are not required to file statement of solvency.

Tax Implications:

The concept paper on LLP states that an LLP will be treated as a firm as defined under the Income Tax Act 1961 for the purpose of taxation, the aspect of tax treatment of LLPs remains an area of uncertainty. The implications for the same are either of the two.

1. LLP will pay tax on its profits after deduction of business expenditure, salaries and interest paid to the partners. Partners will be liable to pay tax on salary and interest receipts, whereas the share in profits is exempt which is same as the current provisions of the Income Tax Act, 1961 with respect to Firm.
2. Only the profits in the hands of the LLP partners will be taxed, the partners will be liable to pay tax on share of LLP's profits received in their hands. This is also known as **Tax Transparency**, which is one of the intentions of coming up with LLP.

Of the above two options the second option appears to be logical and acceptable on account of the following two reasons:

- i) The Naresh Chandra Committee Report as well as the Concept Paper on LLPs which was released by the Ministry of Company Affairs (MCA) in November 2005 had very clearly recommended tax transparency for LLPs viz only the LLP partners should be subject to tax and not the LLP itself;
- ii) The Bill has vide its First Schedule (CLAUSE No. 5) prohibited partners of LLPs from accepting any remuneration. This implies that they will be subject to Income Tax in respect of their share of profits received by them.

Naresh Chandra Committee has, said in its report that "the LLPs should be governed by a taxation regime that taxes the partners as individuals, rather than taxing the LLP itself, i.e., the LLPs should be treated in the same manner as the firm under the tax laws". This is, however, contrary to the system of taxation of firms under the I.T. Act.

Presently, under the I.T. law, a partnership firm pays tax on its profits after deduction of business expenditure, salaries and interest to partners. Partners are then taxed on their salary and interest, whereas, their shares in the profits in the firm are exempt u/s 10(2A) of Income Tax Act, 1961. But the firms are not exempt from tax.

Conclusion:

The introduction of LLPs in India is a good beginning towards a long journey. The hybrid structure of LLP will facilitate entrepreneurs, service providers and professionals to organize and operate in an innovative and efficient manner for effectively competing in the global market.

- - Chetan Dhoka & Tanuja

- - Mikita Jain

..... Important Term-inologies.

I AM ADAPTABLE: I've changed jobs a lot.

I AM ON THE GO: I'm never at my desk.

I'M HIGHLY MOTIVATED TO SUCCEED: The minute I find a better job, I'm outta there.

COMPETITIVE SALARY: We remain competitive by paying less than our competitors.

FLEXIBLE HOURS: Work 55 hours; get paid for 37.5.

SEEKING CANDIDATES WITH A WIDE VARIETY OF EXPERIENCE: You'll need it to replace three people who just left.

PROBLEM-SOLVING SKILLS A MUST: You're walking into a company in perpetual chaos.



AUDIT OF INTERNATIONAL TRANSACTIONS

The annual general meeting of ITC Ltd marked the appointment of A F Ferguson & Co as the auditors for the financial year 1997-98 replacing the then existing auditors Lovelock & Lewes. The latter auditors had expressed their disapproval for reappointment at the forthcoming general meeting.

This sequence of events was triggered by the shareholders' outcry for the same in the previous annual general meeting (i.e. 1996). In the previous AGM the shareholders had clamored for the replacement of Lovelock & Lewes because the auditors had failed to report on the irregularities contained in the international transactions entered into by ITC Ltd, following which the Enforcement Directorate (ED) had put a number of ITC executives behind bars.

The above incidence throws light on the importance of reporting on the international transactions undertaken by companies. The failure to report on the transactions by Lovelock & Lewes has induced the shareholders to pressurize the company on replacing the auditors.

In the current global scenario wherein the companies are spreading their wings & unfurling their flags on foreign shores, reporting on international transactions has gained tremendous importance. Many of the giant multinationals have their network reaching the farthest corners of the world. The network consists of Subsidiaries, agents, branches, franchisees & so on. Numerous transactions take place within this network such as transfer of goods, services, funds etc. Such transactions are often made flexible & kept below margin, as the transfer is within their own channel & thus escape from the big hands of the law. This gave a pinch to the lawmakers to be on their toes.

With the above perspective, the lawmakers felt the need for proper regulation & administration of such transfers. Nonexistence of any system in the past resulted in various litigations & also loss of revenue to the government of India.

Several measures were taken by the lawmakers to regulate such transfer pricing transactions. International transaction activities were soon framed with acts & notes. The Finance Act 2001 introduced the detailed Transfer Pricing Regulations (T.P.R) in India, w.e.f 1st April 2001.

The Institute of Chartered Accountants of India has insisted on a verification certificate for international transactions from the auditors after

scrutinizing the methods of computation as per the guidance note on transfer pricing. More so the central government has drafted the Transfer Pricing Guidelines for the companies which apply to all transactions entered into by the companies with its overseas segments.

International Transactions – The Corporate Story

The role of auditor with respect to international transactions is not limited to the traditional reporting; it requires a greater application, skill & knowledge on the part of the auditor owing to the intricacies involved in such type of transactions. An Auditor's role with respect to Companies Act is contained in the Transfer Pricing Guidelines.

The Expert Group which drafted the transfer pricing guidelines noted that Section 209 & Section 211 of the Companies Act requires that the books of accounts of the company as well its Balance Sheet & Profit & Loss Account reflect "True & Fair View" of the state of affairs of the company.

The Group felt that the true & fair view obligation requires substantial disclosures of transfer pricing policies. Under the guidelines every company is required to prepare a 'Transfer Pricing Policy Statement' & an Implementation Report on the same.

- ✚ The Policy statement would contain the transfer pricing methods used for different classes of transactions with different parties.
- ✚ The Implementation report would document the compliance with the policy statement
- ✚ The Implementation Report should be audited by an independent Chartered Account or a Cost Accountant.
- ✚ The statement & the report should be placed before the audit committee & the board for approval
- ✚ The related party transactions should be undertaken only after the policy statement has been approved by the audit committee.

A Chartered Accountant or a Cost Accountant is required to furnish a report on compliance of transfer pricing guidelines in respect of transactions with related parties. Such report shall be published in the annual report of the company.

The auditors would also certify that they have examined the implementation of the transfer pricing policy & found it to be in conformity with the transfer pricing guidelines & with the policy statement.

International Transactions - The Income Tax Story

By means of Finance Act 2001, Income Tax Act 1961 introduced the hypothesis of 'Transfer Pricing' under section 92.

Transfer pricing is the price at which "Associated Enterprises" transfer goods or services to each other ("international transactions"), which may not be in accordance with the market price charged by them to unrelated parties.

Separate Audit Report

With respect to such transactions, Income Tax Act u/s 92E requires the person entering into international transactions to furnish an Audit report from a Chartered Accountant in the prescribed form. Rule 10E prescribes the form number 3CEB for the audit report; for which specified information & documents are to be maintained as prescribed u/s 92D of Income Tax Act 1961. The above mentioned report should be furnished on or before the due date for filing the return of income. The Auditor is required to:-

- ✚ Express an opinion whether proper information & documents have been maintained by the assessee as prescribed by Section 92D.
- ✚ Particulars set out in the annexures to the report are true & correct.

Maintenance of Documents

Section 92 D of Income Tax 1961 Section 92D of the Act deals with the provisions relating to maintenance of information and documents and requires every person entering into an international transaction to keep and maintain the information and documents in the prescribed form & the same has to be maintained for period of eight years from the end of relevant assessment year. Further they are to be furnished on the respective due date as per the Act.

There are two categories according to which persons are suppose to maintain the relevant documents-

Category-1: Those persons who have entered into international transactions the total value of which exceeds Rs. 1 Crore.

Category-2: Those persons who have entered into international transactions the total value of which does not exceed Rs. 1 Crore.

Documents are also segmented as Primary & Secondary. Primary documents are pertaining with Assessee as a whole & the transactions.

➤ As Per Assessee:

The assessee under category-1 is suppose to maintain an account of its possession, also the profile comprising name, address, legal status and country of tax residence of each of the MNC group to which it belongs & the details of its significance in the enterprises with whom he has entered into an international transaction. Assessee is also to maintain & furnish the details of business & industry under which the assessee & its associated enterprises have transactions.

➤ As per Transactions:

The assessee under category-1 has to maintain the following documents as per the classification of transactions

- The nature and terms (including prices) of international transactions entered into with each associated enterprise, details of properly transferred or services provided and the quantum and the value of each such transaction or class of such transactions.
- A description of the functions performed, risks assumed, and assets employed or to be employed by it and by the associated enterprises involved in the international transaction.
- A record of the economic and market analysis, forecasts, budgets or any other financial estimates prepared by it for the business as a whole and for each division or product separately, which may have a bearing on the international transactions entered into by it.
- A record of uncontrolled transactions taken into account for analyzing their comparability with the international transactions entered into including a record of the nature, terms and conditions relating to any uncontrolled transactions with third parties which may be of relevance to the pricing of the international transactions.

- A record of the analysis performed to evaluate comparability of uncontrolled transactions with the relevant international transaction.
- A description of the methods considered for determining the arm's length price in relation to each international transaction or class of transaction, the method selected as the most appropriate method along-with explanations as to why such method was so selected, and how such method was applied in each case.
- A record of the actual working carried out for determining the arm's length price, including details of the comparable data and financial information used in applying the most appropriate method, and adjustments, if any which were made to account for differences between the international transactions and the comparable uncontrolled transactions, or between the enterprises entering into such transactions.
- The assumptions, policies and price negotiations, if any which have critically affected the determination of the arm's length price.
- Details of the adjustments, if any, made to transfer prices to align them with arm's length prices determined under these rules and consequent adjustment made to the total income for tax purposes.
- Any other information, data or document, including information or data relating to the associated enterprise which may be relevant for determination of the arm's length price.

The assessee is also required to maintain other secondary books as prescribed by the act.

Assessee in Category-2

No detailed information and documents, have been prescribed for persons falling under this category, but they will be required to validate, on the basis of material available with them, that income arising from international transactions entered into by him has been computed in accordance with the provisions of Section 92. Thus it is advised to maintain as many records as possible as are prescribed for Category-1.

The Auditor before furnishing his report has to verify all the books required to be maintained by the act. He has been cast a responsibility of ascertaining whether the books maintained are sufficient for the volume of international transactions undertaken & whether they provide adequate information for submission of report.

The Act has provided for rigorous penalties for non compliance with sections 92D & 92E which are follows :

Penalties



- For failure to keep and maintain information and document 2% of value of each transaction into by such person.
- For failure to furnish accountants report Rs. 1 lakh.

Additional Penalties

Following additional penalties are also prescribed for non-compliance of various provisions:

Failure to furnish a report from an accountant would attract penalty of Rs 100000/-. (Section 271BA).

Failure to furnish information or document as required by the assessing officer would attract penalty @ 2% of the value of the international transaction for each such failure (Section 271G).

International Transactions are often prone to manipulations. Since the parties involved are associated, the transactions can be structured in ordered to escape taxes & manipulate the profits. Hence the lawmakers, to bring in more transparency in relation to these transactions have come up with several requirements to be met by the entities entering into such transactions.

The Auditors' role has been enhanced by the lawmakers by introducing a requirement of furnishing a report under the Income Tax Act & the Companies Act. Measures have also been taken by the Institute of Chartered Accountants of India by issuing a Guidance Note on Transfer Pricing.

It's the obligation of Auditors to use their skill set & to do justice to the responsibility cast on them.

- - Soumitra & Puneeth

Numbers And Words

If you spell all the numbers and try to find letter "A" you will have to count to thousand.

Did you know that: $111,111,111 \times 111,111,111 = 12,345,678,987,654,321$ Weird huh?

80C – SAVINGS & INVESTMENTS



'Tax' is one word that gives a chill down the spine for many. While many are critical of the high levies that they are subject to, there are others who are afraid of the taxation system and processes connected to it. However, no one can escape tax. But for the relief of the taxpayers there are a lot of deductions been specified by the law, which can be useful when they are calculating the final amount of tax to be paid. There are various sections under Chapter VI A, through which the benefits can be claimed. Overall, a deduction will lead to a reduction in the taxable income in the hands of the assessee. The eligible figure of deduction will be reduced from the Taxable Income, therefore this would go on to mean taxation on a lower base. One such section under Chapter VI A is Section 80C of the Income Tax Act. This section has a lot more purpose and meaning from the long-term perspective of taxability of investments than the earlier Section 88 rebate.

Below is a list of deduction available under Sec 80C in a tabular form.

Note : The combined deduction of 80CCC + 80C + 80CCD is Rs.1,00,000/-

Section	To Whom	For What	For Whom	Conditions
80C(2)(i)	Individuals & HUF	To effect or keep in force an insurance on the life of person specified in the next column	In case of an Individual - Individual, Individual's spouse and the children of the Individual In case of HUF - Any member thereof	It applies only to so much of premium or other payment made on an insurance policy which is not in excess of twenty per cent of the actual capital sum assured.
80C(2)(ii)	Individuals & HUF	To effect or to keep in force a contract for a deferred annuity	In case of an Individual - Individual, Individual's spouse and the children of the Individual In case of HUF - Any member thereof	1) Not being such annuity plan of the life Insurance corporation or any other insurer as the central government by official gazette may specify 2) Provided that the contract does not contain a provision to receive a cash payment in lieu of the payment towards annuity
80C(2)(iii)	Individual	A deduction from the salary for the purpose of securing a deferred annuity or making provision for his spouse or children,	Individual - Individual, Individual's spouse and the children of the Individual	Salary shall be payable by or on behalf of the Government as deduction should be as per the conditions of services rendered. The individual should be a Government employee. The sum so deducted should not exceed one-fifth of the salary;
80C(2)(iv)	Individual	Contribution to any provident fund	Individual	As per Provident Funds Act, 1925

80C(2)(v)	Individuals & HUF	Contribution to any provident fund set up by the Central Government	Individual - Individual, Individual's spouse and the children of the Individual HUF - Any Member thereof	As notified in the Official Gazette
80C(2)(vi)	Individuals	Contribution to a recognized provident fund;	Individual only	Contribution should be by an employee
80C(2)(vii)	Individuals	Contribution to a approved Superannuation Fund	Individual only	Contribution should be by an employee
80C(2)(viii)	Individuals & HUF	Subscription to any security of the Central Government or any such deposit scheme	In case if Individuals- Individual only In case of HUF-Any Member thereof	As notified in the Official Gazette
80C(2)(ix)	Individuals & HUF	Subscription to any such savings certificate as defined in the clause C of section 2 of Government of Savings Certificates Act, 1959	In case if Individuals- Individual only In case of HUF-Any Member thereof	As notified in the Official Gazette
80C(2)(x)	Individuals & HUF	Contribution for participation in the Unit-linked Insurance Plan, 1971	Individual - Individual, Individual's spouse and the children of the Individual HUF - Any Member thereof	As specified in Schedule II of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002
80C(2)(xi)	Individuals & HUF	Contribution for participation in any such unit-linked insurance plan of the LIC Mutual Fund	Individual - Individual, Individual's spouse and the children of the Individual HUF - Any Member thereof	As notified in the Official Gazette
80C(2)(xii)	Individuals	Sum paid for such annuity plan of the Life Insurance Corporation or any other insurer	In case if Individuals- Individual only	As notified by the central Govt in the Official Gazette
80C(2)(xiii)	Individuals	subscription to any units of any Mutual Fund	In case if Individuals- Individual only	As notified by the central Govt in the Official Gazette
80C(2)(xiv)	Individuals	Contribution to any pension Fund of any Mutual Fund.	In case if Individuals- Individual only	Reference to Clause 23(D) of Section 10

80C(2) (xv)	Individuals	Subscription to any such deposit scheme/ pension Fund setup by National Housing Bank	In case if Individuals-Individual only	NHB established u/s 3 of NHB Act,1857.
80C(2) (xvi)	Individuals	Subscription to deposit scheme of PSU	In case if Individuals-Individual only In case of HUF-Any Member thereof	As notified by the central Govt in the Official Gazette
80C(2) (xvii)	Individuals	Payment in the form of Tution fees at the time of admission or thereafter	Individual – Any 2 children of the Individual	The educational institution being situated within India, and paid only for full time education
80C(2) (xviii)	Individuals	Repayment of housing Loan borrowed - For purchase or construction of a residential house, the income from which is chargeable to tax under the head “Income from HP”. 1.The Central Govt. & any state Govt. 2. Any Bank 3. LIC 4. National Housing Bank. etc.	In case if Individuals-Individual only	Any installments or Part payment due under any self-financing scheme of any development authority, Housing board etc. 1. The admission fee, cost of share and initial deposit which a shareholder of a co. or a co-operative society has to pay for becoming such a shareholder or member. 2. The cost of any addition/ alteration to, or renovation/repair of, the house property; which is carried out after the issue of the completion certificate in house property. 3. Any expenditure in respect of which deduction is allowable under the provisions of section 24.
80C(2) (xix)	Individuals	Subscription to Equity shares or debentures, forming part of any eligible issue of capital	In case if Individuals-Individual only	Reference to Sub-Section (4) of Section 80 IA.
80C(2) (xx)	Individuals	Subscription to any units of any Mutual Fund	In case if Individuals-Individual only In case of HUF-Any Member thereof	Mutual Fund refers to any mutual fund as specified in Clause 23(D) of Section 10 as approved by the board
80C(2) (xxi)	Individuals	Term deposit for a fixed period of not less than 5 years with a Scheduled Bank and other investments	In case if Individuals-Individual only In case of HUF-Any Member thereof	In accordance with the scheme framed and notified by the Central Govt. in the Official Gazette .

80C(2) (xxii)	Individuals	Subscription to bonds issued by NABARD	In case if Individuals-Individual only In case of HUF-Any Member thereof	As notified by the Central Govt. in the Official Gazette.
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CLARIFICATIONS

1. NSC - The deduction u/s 80C in case of Joint Holdings of NSC VI/VII Issues, can be claimed by those persons who have contributed Money out of his Income Chargeable to Tax.
2. The maturity proceeds of Life Insurance Policies are not taxable. However, in case of Pension Plans, only one-third of the maturity amount can be withdrawn in cash which would be held as tax-free. An annuity has to be purchased with the remaining two-third amount. Pension receipts from the same will be treated as income in the hands of the assessee and taxed accordingly.



3. The termination of the participation in a Unit Linked Insurance Plan Policy, no tax benefits can be claimed.
4. Tuition Fees paid by an assessee can only be claimed if it has been paid towards Full time Course, any amount paid in the form of Tuition fees towards Part time education cannot be claimed as a deduction u/s 80C.
5. In case of NSC, the amount of interest reinvested is entitled to deduction under Section 80C and the interest accrued during the first 5 years out of its term of 6 years is eligible for the deduction.

- - Vinay & Deepak

e-Filing for AY 07-08: Quick Statistics (as on 31st JAN 2008)

Milestone	Achievements
E-returns upto 31/01/2008	14.66 Lakh (up by 400 % from 06-07)
Corporate E-returns	3.57 Lakh (up by 18 % from 06-07)
Voluntary E-returns	7.86 Lakh (54 % of total E-returns)
E-returns received on the due date*	1.62 Lakh (up by 238 % from 06-07)
E-returns received on the last 5 days before due date	4.60 Lakh (up by 235 % from 06-07)
Number of registered users	17.25 Lakh (up by 376 % from 06-07)
Number of Corporate returns filed using free Return Preparation Software available on website	1.43 Lakh (42 % of total Corporate E-returns filed)
Number of all returns filed using free Return Preparation Software available on website	5.33 Lakh (37 % of total E-returns filed)
Number of E-Returns filed before 9 am or after 6 pm (beyond office hours)	4.16 Lakh (33% of total E-returns)
Number of E-returns filed using digital signature	2.20 Lakh (15% of all returns and 42% of corporate returns)
No. of Tax Deducted at Source Records in e-Returns	1,34,11,821
No. of Tax Challan Records in e-Returns	22,15,130
Peak rate of return received/hour	21,729/hr (up by 279% from 06-07)
Peak bandwidth utilized	45 Mbps (up by 78% from 06-07)

*Original Due date for 2007-08 was 31/10/2007, which was subsequently extended to 15/11/2007

Source: www.incometaxindia.gov.in

We shall never know all the good that a simple smile can do – Mother Teresa

DEFERRED TAXES

The Accounting Standard (AS) 22, '**Accounting for Taxes on Income**,' issued by the Council of the ICAI is effective from 01-04-2001. It is well known that tax on income is one of the important items in the Profit and Loss A/c of an enterprise.

The Accounting policies require us to match all costs that are associated with the generation of the revenue reported in the profit and loss account. The need for such matching of costs has brought into effect such standard. The basic objective of this standard is to recognize difference the between Taxable Income and Accounting Income and provide for any tax liability or asset arising from such differences.

Before analyzing the difference, the author explains the meaning of Accounting Income or loss and Taxable Income or loss as below:

- **Accounting Income (loss):** It is the net profit or loss which is computed in the Profit and Loss A/c before deducting Tax expenses or adding Tax Savings.
- **Taxable Income (loss):** It is the amount of Income (loss) computed in accordance with the Tax laws, based on which the amount of tax is paid (recovered).

Adding further, the difference in such incomes could either be on account of the items of revenue or expenditure recognized in the books of accounts or the amount of revenue or expenditure recognized for the purpose of computation of income under Income Tax Act.

The differences occurring in the books of Accounts and computation of taxable income could result into permanent difference or a timing difference.

- **Permanent Difference:** These are the differences between the Taxable Income and the Accounting which originate in one period and are **not capable of being reversed** in subsequent years.

Example: Amounts and items disallowed as expense while computing taxable income but allowed as expense in the books. For example Penalties, interests, etc

- **Timing Difference:** These are the differences between the Taxable Income and the Accounting which originate in one period and are **capable of being reversed** in one or more subsequent periods.

Example: Different rates of depreciation, Methods of depreciation, etc

Deferred Tax is the tax effect of timing difference. The result of the timing differences could be either a Deferred tax Liability or a Deferred tax Asset.

Deferred tax Liability (DTL):

A liability would arise if the tax paid in the early years is less and the tax payable in the later years would be higher. For example: if the rates of depreciation under the tax law are higher as compared to the actual rate of depreciation allowed, then the tax paid in such financial year would be less. So such difference in tax amount has to be paid in future which is known as deferred tax liability.

Deferred tax Asset (DTA):

An asset would arise if the tax paid in the early years is higher and the tax payable in the later years would be less.

For example: If any expense is not allowed while calculating the taxable income in the present year but would be allowed in the following years then the tax paid in the present year would be higher and the tax payable in the future year would be less. So such difference in tax amount has to be adjusted in future which is known as deferred tax asset.

While recognizing the deferred tax asset **prudence** should be kept in mind. That is in case of deferred tax asset, there will be sufficient taxable income available in the future against which the asset can be realized.

Accounting Treatment:

All items of timing differences should be considered for arriving at the DTA or DTL.

The total tax expense for a financial year would be the current tax that is calculated on the taxable income and the deferred tax that is calculated based on the timing differences.

This total tax expense of a period should be recognized in the profit and loss account of the relevant financial year.

The current tax and the deferred tax should be shown separately in the profit and loss account. Deferred tax Asset should be debited and Deferred Tax liability should be credited to Profit and loss Account.

And the DTA and DTL should be distinguished from the other Current assets and liabilities.

Disclosures:

- The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

- The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward under tax laws.

- - Priya & Bharath

ACCOUNTING STANDARD (AS) 30, FINANCIAL INSTRUMENTS:

RECOGNITION AND MEASUREMENT

Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement, issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory² in respect of accounting periods commencing on or after 1-4-2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity, as defined below:

- Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank (including co-operative bank), financial institution or any entity carrying on insurance business;
- whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year;
- which is not a holding or subsidiary entity of an entity which is not a small and medium-sized entity.

For the above purpose an entity would qualify as a Small and Medium-sized Entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

From the date of this Standard becoming mandatory for the concerned entities, the following stand withdrawn:

- Accounting Standard (AS) 4, *Contingencies and Events Occurring After the Balance Sheet Date*, to the extent it deals with contingencies³.
- Accounting Standard (AS) 11 (revised 2003), *The Effects of Changes in Foreign Exchange Rates*⁴, to the extent it deals with the 'forward exchange contracts'.
- Accounting Standard (AS) 13, *Accounting for Investments*, except to the extent it relates to accounting for investment properties.

From the date this Accounting Standard becomes recommendatory in nature, the following Guidance Notes issued by the Institute of Chartered Accountants of India, stand withdrawn:

- Guidance Note on Guarantees & Counter Guarantees Given by the Companies.
- Guidance Note on Accounting for Investments in the Financial Statements of Mutual Funds.
- Guidance Note on Accounting for Securitisation.
- Guidance Note on Accounting for Equity Index and Equity Stock Futures and Options.

At 277th Meeting of the Council held from 27th to 29th March, 2008 at New Delhi, the following important decisions were taken w.r.t AS 30 - ACCOUNTING FOR DERIVATIVES

1. It may be noted that although the ICAI has issued AS 30, Financial Instruments: Recognition and Measurement, which contains accounting for derivatives, it becomes recommendatory from 1.04.2009 and mandatory from 1.04.2011. In this scenario, the Council expressed the view that since the aforesaid Standard contains appropriate accounting for derivatives, the same can be followed by the entities, as the earlier adoption of a standard is always encouraged.

2. In case an entity does not follow AS 30, keeping in view the principle of prudence as enunciated in AS 1, 'Disclosure of Accounting Policies', the entity is required to provide for losses in respect of all outstanding derivative contracts at the balance sheet date by marking them to market.

3. The entity needs to disclose the policy followed with regard to accounting for derivatives in its financial statements. In case AS 30 is followed by the entity, a disclosure of the amounts recognised in the financial statements should be made. In case AS 30 is not followed, the losses provided for as suggested in paragraph 3 above should be separately disclosed by the entity.

4. The auditors should consider making appropriate disclosures in their reports if the aforesaid accounting treatment and disclosures are not made.

5. In case of forward contracts to which AS 11, 'The Effects of Changes in Foreign Exchange Rates', applies, the entity needs to fully comply with the requirements of AS 11. Accordingly, this Announcement does not apply to such contracts.

6. This clarificatory Announcement applies to financial statements for the period ending March 31, 2008, or thereafter. **Source: www.icaai.org** (12)

DUAL OPTION OR DUAL REGISTRATION



The Composition Scheme Vide Section 15 of the Karnataka Value Added tax was introduced to reduce the procedural work of maintaining books of accounts in respect of labour and other like charges. Composition scheme is basically an option provided by the Government to Dealers undertaking prescribed activity or having a certain turnover to discharge Tax at prescribed rates provided certain conditions are fulfilled.

The present day legislation relating to COT scheme under Karnataka value Added Tax is embodied in Section 15 of the KVAT Act read with Rules 135- 141 of the KVAT act. The authors of this article have made a sincere attempt to bring to light the benefits as also the deficiencies relating to the insertion of Sub section 2 to section 15 (inserted vide act number 6 of 2007 w.e.f- 01. 04. 2007). Section 15 of the KVAT Act has been enacted stating:-

“[Notwithstanding anything contained in sub-section (1), a dealer whose nature of business is of a type falling under more than one clause of sub-section (1), shall be eligible to opt for composition under the said sub section in respect of tax payable on his turnover relating to any or all such types of business subject to the condition that.-

- (a) such dealer maintains separate account of each type of his business;
- (b) the total turnover in a year in respect of all type of business of such dealer falling under clause (a) of sub-section (1) does not exceed the amount as may be notified under the said clause;
- (c) the amount payable by way of composition by such dealer on his total turnover or the total consideration in respect of each type of such business shall be as may be notified for such type under sub-section(1);
- (d) the total turnover of such dealer from all types of business shall be reduced to the extent of the total turnover or total
- (e) consideration in respect to the extent of the total turnover or total consideration in respect of each type, for calculating the amount payable by way of composition for such type of business under sub-section(1);and
- (f) in respect of such type of business for which, he has not exercised his option or is not

eligible, for composition under sub-section(1) then on the taxable turnover as determined from the balance total turnover after reduction as specified in clause (d), he shall be liable to tax specified under section 4.]”

On the plain reading of the above definition it is clearly understood that a dealer involved in more than one activity specified under sub-section(1) of section 15 can get himself partly registered under regular scheme and partly for composition scheme.

The activities specified under sub section (1) of section 15 of KVAT Act are

- (g) any dealer whose total turnover [in a year] does not exceed an amount as may be notified by the state government (the current notified limit is Rs. 15lakhs) which shall not exceed fifty lakh rupees, and who is not a dealer falling under clause (b) or (c) or (d) below;
- (h) who is a dealer in executing of works contract; or
- (i) who is a hotelier, restaurateur, caterer [or dealer running a sweetmeat stall or an ice cream parlour] [or bakery or any other class of dealers as may be notified by the government]; or
- (j) who is a mechanized crushing unit producing [granite or any other metals];

The Insertion of Sub- Section 2 to Section 15 has now made it possible for a dealer to exercise a double option under a single Registration! In a case where he has multiple trading activities.

But this blessing is not free from drafting lacunae's as Sub Section 4 of Section 15 is not clear in respect of availment of credit in respect of such multiple trading activities.

Sub- Section 4 Section 15 of the KVAT Act reads as follows:

“Any dealer opting for composition of tax under sub-section (1) shall not be permitted to claim any input tax on any purchases made by him.

A reading of the above provision leaves the reader confused whether in respect of the entire turnover no credit can be availed or whether credit is to be restricted only in respect of such purchases relating to purchases made for composition scheme. To simplify the above mess created by the law makers we need to read the Karnataka Value added tax as it read before the Insertion of Sub section 2.

When we do a comparison of the act as applicable to financial year 2005-06 and as applicable to financial year 2006-07 we will be able to appreciate the fact that Sub Section 4 has not been amended in line with the insertion of Sub Section 2.

Hence the following Questions relating to the interpretation of Section 15 (2) leaves us all perplexed –

- ✓ Whether the dealer is indeed entitled to exercise dual option but can he also avail credit in respect of his entire turnover, or
- ✓ Is the credit to be restricted to the purchases relating to business under composition scheme, or
- ✓ Does the law bar him from availing VAT input credit in its entirety?

A conservative view is one where rather than exercise a dual option with a single registration the dealer may opt for a Dual Registration to avoid litigation in future. However the author is of the opinion that a dealer may opt to hold a single registration and exercise dual option, on the premise that has been highlighted by various judgments that an Assessee can opt to discharge taxes on the basis of provisions which is beneficial to him.

The Budget 2008-2009 has failed to address the following issues mentioned above. Hence a provision which could have been a great aid to the dealers in the sense that the dealers would have found it easier to discharge tax liability, thereby enhanced compliance on the part of the dealers has now been rendered to be a dead letter.

- - **Haris & Shashank**

CARBON EMISSION – GLOBAL CLIMATE CHANGE

By – **Cleo Paskal**

Cleo Paskal is an Associate Fellow at the Royal Institute of International Affairs, London, and Visiting Faculty in the Department of Geopolitics, Manipal University.

There is now widespread scientific consensus that human-produced carbon emissions are contributing to global climate change. It may not be the only cause, and global feedback mechanisms (like the release of huge stores of the greenhouse gas methane from the melting permafrost) could be too far advanced to stop, but the political reality is that there is growing pressure for a global framework to curb carbon emissions.

The EU is working hard, at all levels, hoping to position itself as the world agenda-setter in carbon-related issues. They are benefiting from the US' official absence from the international negotiations. But individual US States and cities are actively enacting their own legislation, making it very likely that, after the next US national election, the US will jump fully into the global carbon debate.

China is trying to position itself as the voice of the developing world, while at the same time trying to use the EU position to its own advantage (i.e. there is currently a proposal on the table for Germany to relax its intellectual property rights legislation in regards China so it is easier for companies like Siemens to transfer 'carbon friendly' technology. This is not a concession that China is looking to extend to other members of the developing world).

Meanwhile, seen from the outside, India seems to be decidedly behind in positioning itself in

relations to the new realities. It is neither leading the debate, nor benefiting from the current construct.

The Political Component of Carbon

Apart from reducing emissions, the carbon issue is also being used to advance various ancillary agenda, such as those relating to energy security, protectionism, subsidies and trade tariffs. All too often, cutting carbon emissions is used as a justification and impetus for an existing policy that, when more closely examined, gives little to no carbon cutting benefits.

For example, cutting carbon emissions is being used to justify:

* A push for various biofuels, even though many, at their current stage of development, can often take as much fossil fuel, or more, to grow and process than they replace at the pump. In the US, ethanol has mostly been an excuse for more agricultural subsidies.

The shift from food crops to fuel crops has done little to promote energy security, meanwhile it has depleted valuable water reserves, put a strain on global food supply and contributed (along with extreme climate patterns) to precipitous food price inflation. In some places it is also resulting in deforestation that reduces the global carbon sink, compounding the net increase in emissions.

In Europe, where there are dwindling domestic fossil fuel supplies, 'climate security' is politically often closely linked with 'energy security'. The push for alternate and renewable sources may have received its biggest political boost not from climate-related science, but from Russia showing a willingness to play politics with its fuel supply. Therefore, it makes sense from an EU point of view to encourage global policies that favour those that cut down on fossil fuel use as it reinforces the EU's existing goal of trying to create more energy independence for security reasons.

* The increasing push to rate food/products by 'food miles' (or the distance the food traveled to get to the shop). In the UK, food that has been flown in is now commonly labeled with 'By air' tags in large grocery stores to encourage buyers to focus on local or shipped products. This is in effect morally-backed protectionism and is sometimes based on faulty logic. For example, one study has shown that the carbon footprint of cut flowers flown in from Kenya was much lower than those grown in Europe because of the fuel needed to heat the greenhouses in colder climates;

* Demonstrations against flying in general and the expansion of Heathrow Airport in particular have turned flying, especially for a holiday, into a moral issue. This is an example of how a single 'lifestyle choice' can be highlighted and other equally valid issues are given less focus. For example, according to a major report by Food and Agriculture Organization of the UN, the meat industry produces more greenhouse gases than the entire transportation industry, and yet a climate change link to eating less meat/vegetarianism is far less advanced than the 'no-fly' lobby.

At the grass-roots level, there is an enormous amount of incomplete analysis of the problem, and at the governmental level, carbon is often used to justify policies that actually have little to do with reducing emissions.

All this could have a serious effect on India. Just to use the small examples above, the faulty logic and policies of others could drive up the price of India's food and energy imports, hamper its tourism/business development and its ability to

export, and make it a net loser in the carbon counting stakes.

What to do

There is a need for a two-pronged assessment of how cutting carbon emissions will affect India. One prong would look at, and encourage, effective procedures that would actually produce results. It would identify, and promote, policies and India-invented technologies that can help reduce the amount of greenhouses gases produced, helping to make India a world leader in solutions.

Another prong would look at what global policies are gaining momentum with a view to 'play the system' to India's benefit. It is also important to try to counter policies that have no carbon cutting benefit and are harmful to Indian development while, at the same time, implement ones that may not be of direct carbon cutting benefit, but would be otherwise advantageous.

For example, if other nations are tagging Indian imports with 'food mile' penalties, it would only make sense to consider implementing commensurate 'carbon' tariffs on imports from those nations (Chinese products in particular tend to have a heavy carbon footprint). Also, if it looks like the world is going globally towards labeling products with their 'carbon footprint', India should act to develop its own accounting system for exports so that faulty accounting in the importing country doesn't affect India's exports in the same way the Kenyan flower growers were affected.

Essentially a new series of levers is being introduced into international trade and, while the game must be played, it is also essential to keep in mind the ultimate goal of cutting emissions.

Conclusion

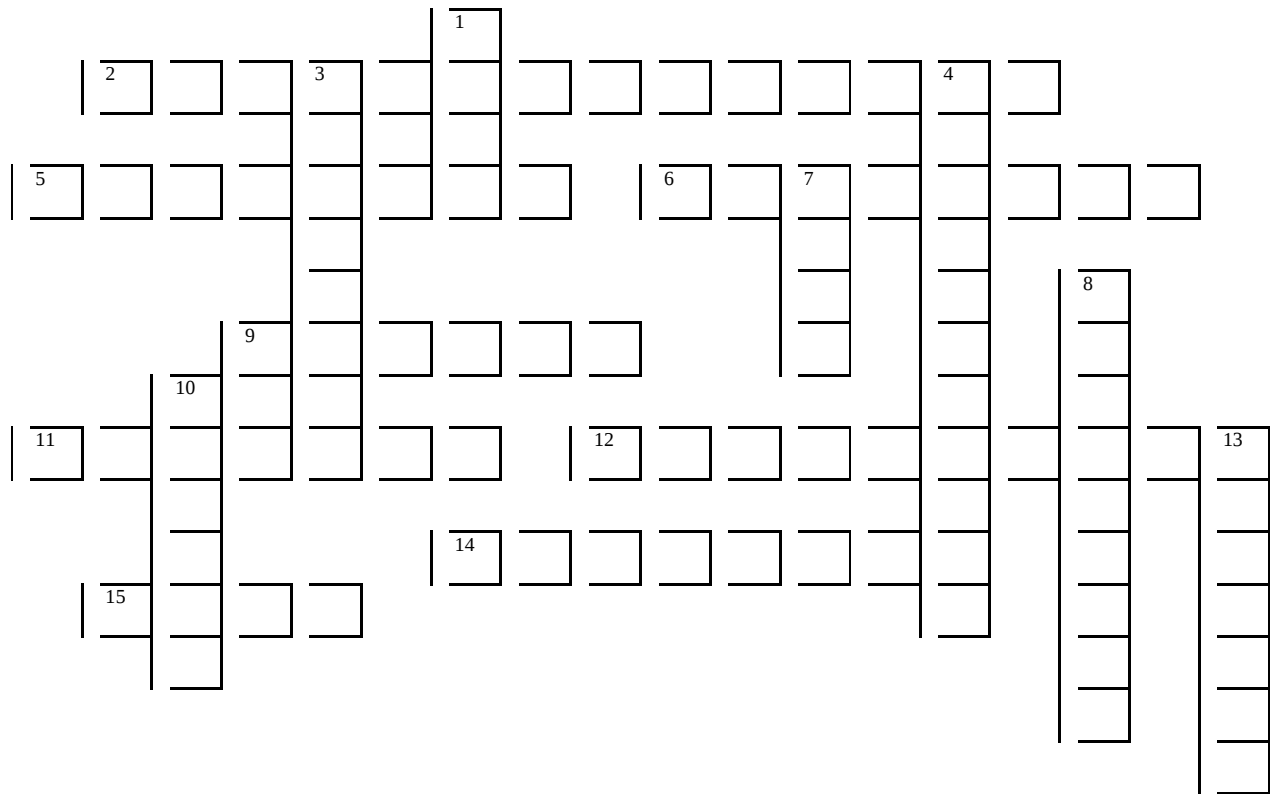
Both because of the looming, damaging, effects of climate change and because the global economy is starting to incorporate carbon-related elements (something that is almost certainly going to grow exponentially), India needs to figure out what it wants, and take control of the (ideally global) process before it is left standing at the starting gate after all the other horses have left in a blur.

Coffee Beans Aromas



The full chemical name for caffeine is 1,3,7-trimethylxanthine and its chemical formula is $C_8H_{10}N_4O_2$. When coffee is roasted, and when the coffee beans begin to cool, they release about 700 chemical substances that make up the vaporizing aromas.

CROSSWORD - 11



ACROSS

- 2 A taxation principle referring to income taxes that are paid twice on the same source of earned income.(6,8)
 5 An incomplete instrument.(8)
 6 The point at which several products emerge from a common process.(5,3)
 9 A payment from the government for an individual's overpaid taxes.(6)
 11 A system that taxes everyone at the same rate, regardless of their income bracket.(4,3)
 12 Physical examination of tangible assets.(10)
 14 Substitution of an existing contract with a new one.(8)
 15 To collect or assess money that is due.(4)

DOWN

- 1 To give an absolute right to title or ownership, including real property and pension rights.(4)
 3 Balances receivable from customers to whom goods have been sold on credit.(4,4)
 4 Sending work to another organization instead of processing the work in-house.(11)
 7 Right of retaining possession of property belonging to the debtor.(4)
 8 Approximation used while including certain items in the financial statements.(9)
 10 A secret understanding among the bidders not to make an offer above certain price.(6)
 13 Something which may be treated as nothing, as if it did not exist or never happened.(7)

-- Shilpa & Pavithra

Answers: Crossword-10

Across: 6- Objective, 8- Symbolic delivery, 10- Caveat, 12- Dissolution, 14- Implied, 15- Analyse.

Down: 1- Bear Market, 2- Template, 3- Price, 4- Series Fund, 5- Disinvestment, 7- Globalisation, 9- Complementary, 11- Customer, 13- Interest.

*The Winners to Crossword 10 are Haris Parmar & Priya Ranjani
 We Congratulate the winners.*

Current Affairs

"INDIA WILL HAVE TO DO WITH LITTLE LESS GROWTH IN 2008-09, WHEN INFLATION IS REARING ITS HEAD" – F.M CHIDAMBARAM.



Inflation is the economic term directly related with the decrease in the buying power of the money and increase in the price of the specific goods and service.

The rate of the inflation has increased drastically over the period of time and the inflation rate has moved up critical six percent mark to a 13-month high of 6.68% for the week ended March 16, 2008.

It goes without saying that; causes of today's inflation are complicated and more guided towards the global phenomenon. However, it is indeed intriguing that the policy response even to this day unfortunately has been fixated on the traditional anti-inflation instruments of the pre-liberalization era.

Amid apprehensions of moderation in growth next fiscal, Finance Minister P Chidambaram said India's economy can easily expand between 10-11 per cent if half of the population, left out from the growth process, is brought into the mainstream of economic activities. "Please remember India's economy is driven by one half of the population. The other half is mute witness to what is happening in India. If other half also becomes part of the driving forces of growth, India's economy will grow not by 8-9 per cent, it will easily grow between 10-11 per cent," Chidambaram said at a Delhi-based bank's function here.

Prime Minister Manmohan Singh will chair an emergency cabinet meeting on prices of steel, wheat and other essential goods as inflation at a 13-month high threatens the government's bid for re-election. The cabinet will also discuss cement, edible oils and food articles including rice tonight, Trade Minister Kamal Nath said.

The government, willing to settle for slower growth to check prices, has cut import duties on food and is considering other fiscal measures to rein in inflation. We can look forward to the government further raising food subsidies and cutting import and

local taxes to contain inflation," said Dharmakirti Joshi, an economist at Mumbai-based Crisil Ltd.

Prices are rising at a time when more than three years of interest-rate increases and a global economic slowdown are threatening to disrupt India's record expansion. Reserve Bank of India Deputy Governor Rakesh Mohan said on March 28 prices had climbed higher than policy makers expected because of faster gains in the prices of oil, food and other commodities.

Measures

The cabinet may consider reducing taxes to help bring down prices. India on March 20 cut import duties on



edible oil to ensure adequate domestic supplies and curb inflation. India cut the tax on vegetable oils four times in 2007, and this month banned exports of all cooking fats for a year, joining China, Malaysia and Indonesia in securing food supplies.

India may reduce duty on import of edible oils to zero and cut import duty on steel and other food articles, Trade Minister Nath said. India may also end subsidy provided on exports of sugar to contain local prices, he said.

Singh's government has curbed exports of rice, wheat and lentils, and banned futures trading in some commodities to slow inflation before elections.

India last week also scrapped a tax benefit on exports of steel and cement to bolster domestic supplies of the commodities. The inflation rate has almost doubled since the last week of November, stoked by food and commodity costs. Manufacturing price inflation is also catching up now, accelerating to a one-year high of 6.68 percent in the week ended March 29 from 4.21 percent at the start of the month.

In Spite of the efforts of the Government in terms of controlling or reducing the Inflation rate by reducing the Duties and Taxes, it would make any big difference or an impact as such.

- - **Sourabh, Haris & Supriya** (17)

Logo Quest

- - Chetan, Deepak & Haris

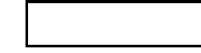
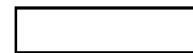
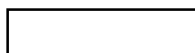
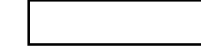
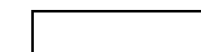
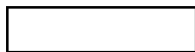
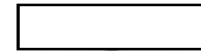
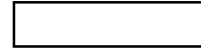


Figure out the above "Logos" and the Answers to the Lateral thinking and Mail it across to us at newsletter@dnsconsulting.net

Answers will be published in the next edition of "The Articled"

Lateral Thinking

- Shahrukh is lying dead in a field. He has a backpack on and a ring in his hand. How did he die? (Clues: The backpack is extremely important. Think 3D...)
- Harry is dressed entirely in black and wearing a black mask, is standing in the middle of a crossroad. All of the streetlights at the intersection are broken. A car speeds down the road, heading straight for him, yet it turns in time and doesn't hit him. How does it manage to miss him?
- Rohit lies dead on the floor, and nearby are a pile of bricks, and a Beetle on top of a book. How did he die? (Clue: The beetle is not really a beetle.)
- Karthik on his first birthday, turned eight years old. How could this be?
- Those who make them, don't need them. Those who buy them, don't want them. And those who use them don't know about it. What do you think are they?
- Mickey and Minnie are lying dead on the floor of an Egyptian villa. Their bodies are unmarked and they have not been poisoned. There is a broken bowl lying nearby. How could they have died?
- Everyday Shina, takes bus to work. She can get off at either one of the two stops. The first stop is 100 metres from the office building where Shina works. The second stop is 200 metres past the Office building. She always rides past the first stop, and gets off at the second one. Why?

PROJECT FINANCE – CHALLENGES IN PROJECT REPORT PREPARATION

In an emerging market scenario, the Project report preparation is attaining significance as a specialized area, requiring skills and expertise.

I. PREPARATION OF A QUALITY PROJECT REPORT PLAYS A VITAL ROLE IN FOLLOWING CONTEXTS :

- ✚ For the project promoter, it is crucial to ensure that time is the essence of success in any field and which can be accomplished by a quality project report.
- ✚ Carrying-out the correct scope and details of preparatory work to support the proposal is of key importance.
- ✚ In project finance funding, the quality of a project report will usually determine its chances of being funded.

A well-structured project report that has clear objectives will get more attention and is more likely to produce the intended results.

II. PROJECT

A project is 'a means of doing something' or 'a scheme of work', which aims to reach a specific goal, from a defined starting point, within a given time frame, with specified inputs (e.g. money, manpower). It is a means by which the ideas and objectives of policy are converted into practical reality. A project can stand alone or be related to a number of other projects or activities in a **programme**. Such a programme is usually made up of a number of **tasks** which are integrated with each other and do not stand alone. In turn, a task may comprise a number of separate **activities**.

III .BASIC PROJECT CYCLE

The stages involved in identifying, developing and implementing a project are usually presented as a project cycle.

Projects normally go through a series of stages:

- a) **Identification** - ideas for potential projects are identified and alternatives explored;
- b) **Preparation** - a detailed description of the project is carefully worked-out and tested;
- c) **Appraisal** - the proposed project is rigorously assessed and adjusted if necessary;
- d) **Funding** (may be called 'Negotiations and Financing') - Final negotiations between the

proposer/ project finance expert and the funder(s) take place, and formal decisions are made about the project and how it will be carried-out;

- e) **Implementation and Monitoring** - the project is carried-out and periodic checks made to ensure that it is running properly;

- f) **Evaluation** - the results of the project are assessed and new project ideas may be generated.

PROJECT IDENTIFICATION:

Project developer (or **sponsor or proposer**), is the person primarily responsible for generating possible project ideas, alternatives to address it and testing them for their feasibility. The results of project identification will usually be a short document which provides a first brief description of the project.

It is important to have a range of possible projects available to tackle a particular problem i.e. a range of alternative solutions to problems.

Project developer need to know about other activities going-on which may have a direct or indirect effect on his project. Project needs to be coordinated with such activities.

PROJECT REPORT PREPARATION :

At this stage, a detailed project proposal will usually be developed and prepared. This will depend upon largely on the size and complexity of the project, and from where one expects to get the project funds. The exact steps to be taken, will often be guided by the procedures and requirements of the potential funder.

At this stage the project proposer and the project finance expert will often work together. Project finance experts/ Consultants will play a key role in preparing the quality project reports and to carry-out the preparatory work. The proposer is mainly responsible for ensuring that all necessary inputs regarding the project are furnished and that its main components and assumptions are adequately tested for their feasibility. The funder requires the project report with all required information for giving necessary approvals.

During preparation of project report, one needs to be aware of how the project will be appraised. This will determine the type and level of detailed information to be included in the project report, and often also the format in which it should be presented.

In considering how the project idea might best be funded, one needs to consider the type and size of projects.

- ❖ First step is, whether it can be funded by a grant, a loan, equity, or some combination of these.
- ❖ Second step is one need to consider the potential source of such funding.

A good project proposal will foresee questions which will be asked during appraisal by a particular funding type or source. For larger projects it may be helpful, or necessary, to support the project report with information gained through **Cost Benefit Analysis, Stakeholder Analysis, Institutional Analysis, or Environmental Impact Assessment.**

IV. IN THE CONTEXT OF NEW MARKET ECONOMIES , TALENT, SKILLS AND EXPERIENCE ARE NEEDED IN A RIGHT PROPORTION FOR PREPARING A PROJECT REPORT :

It is important to recognize that different people have different roles in the project development process. They consequently need different information and skills;

Project-building is generally a team activity; mainly includes Project promoter, Project funder and a specialist/ Project finance expert. Project finance expert is required in the process to translate the ideas of the promoter to the requirements of the funder;

Careful preparation is essential for identification, preparation and appraisal of project reports. Strong economic and financial analysis is especially important to the successful development of projects;

It is important to explore and evaluate all possible options;

Lack of resources - both money and skills - makes it essential to find cost-effective solutions;

Better understanding of the main funding institutions is required - their motivation, typical lending behavior, how they are best approached and what documents are required e.g., certain institutions finance farmers, certain others small industries, certain others infrastructure and so on;

A good project report will try to foresee the questions that will be asked during the appraisal process, and will try to provide the information required. Hence the Project

report preparation is emerging as a specialized area for acquiring skills and expertise.

In other words, Presentation of a Project report professionally, will go in a long way in achieving the desired results.

V. THE SKILLS REQUIRED

- The preparation of project reports requires **creative, innovative skills** and **project-building skills** based on the information furnished by the Project proposer. It may involve techniques to generate ideas, for example, brain-storming.
- It may involve **multi-disciplinary** or **multi-agency** forms of working. The development of the ideas may involve both the project sponsor and potential **funder**.
- Preliminary assessment of project viability requires **analytical and presentational skills**.
- Persuading other people and organizations that one has a good project idea and then convincing funders to support it, requires **negotiation skills**.

VI. A GOOD PROJECT REPORT

1. Meet the needs of the potential funders and answer the questions in their minds.
2. Must be at the right level of potential funders. Out of the team of potential funders, some have an in-depth knowledge of the subject; others may be decision-makers without specialized, technical knowledge.
3. Must have a clear, logical structure –with clear signposting to show where the ideas are leading.
4. Must not make assumptions about the readers' understanding. Project finance experts need to apply the “so what “test and need to explain why some thing is a good idea.

Must give a good first impression. Presentation is very important.

VII. WHAT MAKES A GOOD PROJECT REPORT AND A GOOD PROJECT?

Preparation of a good quality project report, effectively translating the ideas of an entrepreneur /project proposer, will basically lead into successful implementation of good project.

Experience suggests that a successful project report will usually have the following features:

➤ Executive Summary Of The Project

This should be capable of being read on its own and giving a good overview of the project.

It should comprise:

➤ Project Description

This should comprise:

- a comprehensive view of the project and its constituent activities;
- a full explanation of the technical aspects;
- a suggested timescale;
- a work plan with milestones and outputs;
- An explanation of the organization and staffing.

➤ A Detailed Description Of The Financial And Economic Factors

(in project appraisal this may be one of the most important sections).

It should:

- show that the costs and income over time are appropriate for the type of project;
- Justify the project's value in the context of the country;
- Statutory requirements including direct, indirect taxes, permits, licenses and clearances required.

➤ Identification Of Options :

It should:

- show that alternatives have been identified and assessed;
- clearly establish and justify the best option;
- Explain whether environmental assessment of options (wherever required) have been done.

➤ Questions Of Uncertainty And Sensitivity

It should:

- clearly present the risks;
- Show how sensitive different elements of the project are to these risks and assumptions.

➤ Funding

It should:

- suggest a realistic budget for the duration of the project;
- Set out the funding support required and indicate when it will be needed.

➤ The Analysis Techniques Include

- Technical evaluation;
- Cost benefit analysis (for financial, economic and social aspects);
- Risk assessment;
- Stakeholder or socio-cultural analysis;
- Institutional analysis;
- Environmental impact assessment;
- Environmental audit;
- Multi-criteria analysis.

VIII. FUNDERS WILL GENERALLY LOOK CAREFULLY TO SEE WHETHER:

There is sufficient participation by the beneficiaries - the beneficiaries of the project must be involved in the actual decision-making;

There has been adequate consultation of stakeholders - stakeholders are individuals or groups of people affected by the project, or with an interest in it. This means more than just explaining the project to key people or groups who stand to gain or lose;

Where loans are involved, that the borrowers are fully committed to the project - 'ownership' has been gained because the borrower is responsible for preparation and implementation. This ensures that the project initiative is local i.e. in your own country;

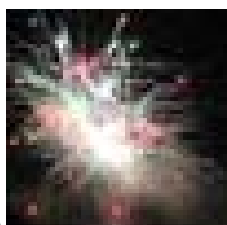
Risks have been adequately assessed and will be managed;

Capacity-building has been included - pursued through separate technical assistance where appropriate e.g. staff training;

Project design is adjusted to changing conditions in a timely way.

- - Mrs. Sailaja

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The speed of light was broken by two physicists, Gunter Nimtz and Alfons Stahlhofen, in Germany from the University of Koblenz. This seriously questions Einstein's theory that no object or information can move faster than the speed of light in a vacuum. An example of what could happen with this is time travel, but not like you imagine: If you went for a car trip faster than the speed of light, you'd arrive at your destination before you'd even leave, theoretically, of course. As Dr Guenter Nimtz said: "The effect cannot be used to go back in time, only to reduce the time between cause and effect a little bit."



RENDEZVOUS WITH MR. CHENRAJ JAIN

CHAIRMAN, JAIN GROUP OF INSTITUTIONS

Jain Group of Institutions (JGI) imparts quality education to the country. The group, started in the year 1990 under the dynamic leadership of Sri R. Chenraj Jain, and has now grown into a conglomerate of 28 Institutions with over 21,000 students across the country.

His Missions are:

To provide quality education from cradle to career thereby creating human assets.

To fuel economic growth by developing new generation entrepreneurs.

To create a networked community of leaders, technocrats, scientists and sports persons.

To foster an ethical environment in which both spirit and skill will thrive based on human values to enrich the quality of life.

Chetan : *What do you see as the most significant achievements of your rather distinguished career?*

Mr. Chenraj : We are into education sector. Changes are happening at a fast rate; hence whatever you do becomes obsolete. So at present I do not consider myself as a significant contributor. But one satisfaction is there that we have got around 22000 to 25000 students and through the free school we are educating around 3000 underprivileged students. That is one satisfaction and as far as achievement is concerned still a long way to go.

Chetan : *You did not have an impressive educational qualification. Was it a hindrance to your growth?*

Mr. Chenraj : It's a debatable issue. If I had a good qualification I wouldn't have done this. But if you are educated it saves a lot of your time because by trial & error method I have taken 10 years more to reach this position. So time wise I have lost 10 years but it was a good insightful experience for me. I do believe that education is a key factor & you should have a minimum qualification of PG & I had only half the qualification of that- 7th or 8th. It's also difficult to make people accept you. Though formally I didn't possess any qualification informally I had immense knowledge. But now I do not have any such hindrance, I myself am a teacher now. I teach 10 – 12 subjects at the PG level.

Shilpa : *You are basically a businessman. What made you enter the education sector & how do you view this Education sector as a business?*

Mr. Chenraj : Education sector in India as a whole is still a social topic. We are already 60 years old and our literacy rate though on paper is around 61%, but actually it is not even 10%. One million schools in the country are run by the Govt and only 50000 schools are private. In 10-15 years I see a good growth in education sector because knowledge is the only area where there is skill force, knowledge force and entrepreneur base. So it's like a triangle where you can say 2% will be entrepreneurs and 10% will be knowledge force and 88% will be vocationally skilled. But still it has not emerged as a clear model in the country with the WTO norms. The day the corporate, privates & NGOs take it up full fledged, education is going to be the key factor in the country. It is going to be a norm where they will take it as industry.

Shilpa : *What is your view on the creation of Valuation & Wealth for a Trust, which is a social organization?*

Mr. Chenraj : Under the Education Act, education institutions are run by trusts. And trusts do not come in the tax bracket, as Government has given subsidy to the education institutes. A girl child according to the law has to be educated free of cost throughout her life even by the Private education Institute, but it is not yet come into effect because of various vested interest. So still this topic of valuation does not arise unless the company is formed in the education sector. There are few people who have taken this initiative like Manipal, who are unleashing their servicing model, it's a kind of model where they test mind and this kind of services model is emerging now. So as a trust it is only an education provider where the students pay the fee as prescribed by the Govt and private institutes can collect 4 or 5 times more than what the Govt has prescribed. So still there's a long way to go for valuation. Trust cannot be valued; it can only run an educational organization under the Central law.

Udaya :

You are known to have keen interest in new ventures, which are abrupt ideas of your students. Do you see any challenging opportunities in them?

Mr. Chenraj :

In B-Schools I address about the entrepreneurship. I did an experiment with a few students, and we have incubated about 14 companies, which are doing exceptionally well; some are restaurants, hospitality industry, hostel management, textile, interior products, and technology companies and when it comes to application based-software model creation. Out of the 14 companies incubated and selected by me from the Jain Group, some of them are in PG and some of them are in Degree level. 12 out of the 14 companies are doing very well, and the combined turnover is 100 Crores now and the profit is in the range of 10-12 Crores, out of which 50% is already earmarked for the free education of the under privileged children. Looking at the success of the 12 companies, I am planning to incubate 20 more such companies. So the idea is that they add on to the economic growth by becoming job providers of the country and not job seekers. When I talk to a large gathering of 300 B-School students, 5 or 6 out of them are really interested and I am able to incubate 5-6 companies every year, which provides direct employment to about 1000 people and indirectly around 500 more. These young chaps have the interest and enthusiasm and have really done well. One or two have failed but 90% has been successful. I foresee a huge scope of success in this type of business module. If we can start 1000 universities, I'm sure there will be a very powerful Knowledge Explosion. Primary education is the core area where we need to concentrate. There are more than 50 million students who do not have access to education. This is one of most important bottlenecks. India has a very powerful potential when it comes to human resources and intellectual capital, the day we achieve 100% literacy nobody can catch us.



The Editorial Board with Shri R. Chenraj Jain

Udaya :

Can you give us a brief insight on Jain Vidyaniketan?

Mr. Chenraj :

Jain Vidyaniketan is just a small project, where in we are providing free of cost education to around 2500 students. The idea is to spread this model all across India, and a quarter million children will get educated free of cost. If they are educated and empowered, I'm sure they will be able to earn \$10,000 per year or Rs. 20,000 per month. This venture is just an attempt to make education accessible to everybody. A number of NGOs and corporates are also starting this trend and I am sure if this continues government may also not be required. These educated mass will be the future consumers and thereby contributing to the economic growth. Let's hope for the best.

Deepak :

You have many students pursuing CA as their professions in your institutions, what scope of growth do you see for them?

Mr. Chenraj :

Earlier we had a much focused group of CA Foundation, CA Inter and CA Final. We had a group of 300 youngsters getting educated here with a success rate of 25%. So 14 years down the lane it would have been possible to produce 600 to 700 chartered Accounts because of the quality training we have provided. But, now because of the new scheme of training called CPT, there are hardly any students attending the classes. We are proud to say that we have produced around 30-35 ranks in the last 12 years.

Deepak :

What keeps you up and running when you are morally down ?

Mr. Chenraj :

Your Targets!!! You have 10 years of target to complete in 1 year, so you never feel down. The best way is to work for 36 hours in 24 hours, you will never be morally down. I always suggest you to be passionate towards your work. This will never make you feel depressed and I personally feel the word "Depression" is something you find in dictionary. It is all the state of mind, therefore enjoy your work. If I go into depression then it would not be possible for me to accomplish the missions and the goals I have set for myself, thus the question of morally going down does not arise at all. This holds well at least for me. Therefore, the best thing to do is to keep your targets stringent that you do not have time for things like depression and it keeps you going.

Spellathon...

S	L	V
D	I	M
X	C	E

The objective is simple; you just have to run your mind for miles to find the best of words

Minimum of 4 letter words

Following the English Oxford Dictionary.

Answer the above questions and Mail it across to newsletter@dnsconsulting.net

Hurry, Last date for the submission of your Answers is 15th April

Answers will be published in the newsletters May Edition.

STRAIGHT FROM THE ICAI.

Common Proficiency Test

The Common Proficiency Test (CPT) examination will henceforth will be held twice a year in the months of June and December every year, instead of four times in the months of February, May, August and November.

Newly Elected President and Vice-President

The Institute of Chartered Accountants of India in its 276th Council Meeting elected CA. Ved Jain as President and CA. Uttam Prakash Agarwal as the Vice President of the Institute.

Working Hours of Article Assistants

The working hours for the articled assistants shall be 35 hours in a week excluding the lunch break. In case of the exigencies of work with the Principal, an articled assistant may be required to work beyond his/her normal working hours. However, under such circumstances, the aggregate number of working hours shall not exceed 45 hours per week. The requirement to work beyond 35 hours in a week should not be a practice but only in exceptional circumstances. Further, where the articled assistant is required to work beyond normal working hours, and aggregate of such hours exceed 35 hours per week, he/she shall be entitled to compensatory leave calculated with reference to number of completed working hours, over and above, 35 hours per week.

New Branches of ICAI

The ICAI has approved the set up of two new branches at Amravati and Pimpri Chinchwad.

Business Cartoon

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 or shilpa@dnsconsulting.net or write to: The Editor, #10, South Park Road, Nehru Nagar, Sheshadripuram, Bangalore – 20.

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