# News

## NATIONAL

### VAT panel submits suggestions to Kelkar committee

The Empowered Committee on Value-added Tax on Thursday submitted its proposal on the nationwide tax regime to the Kelkar Task Force which is finalising the proposals for reforming direct and indirect tax system.

The committee, headed by West Bengal Finance Minister Asim Dasgupta, also briefed the task force about the level of preparedness by the states on implementing VAT from April 2003, official sources told PTI after the meeting.

The Task Force on Indirect Taxes, headed by Finance Minister's advisor Vijay Kelkar, was awaiting the suggestions from the empowered committee before finalising the final report which is expected to be the roadmap to the next Budget.

Dasgupta, however, reiterated the need for compensation in case of loss of revenue by the states while implementing the VAT which would replace central sales tax in phases.

The Centre had earlier given the assurance that the states would be compensated fully if there is any revenue loss.

(Source : http://economictimes.indiatimes.com)

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### RBI eases forex norms further

Indian travellers going abroad can now make hotel reservations and buy Euro Rail tickets outside their basic travel quota, which was recently doubled from $5,000 to $10,000.

This is the outcome of the Reserve Bank of India further liberalising on Wednesday remittance norms for foreign exchange for tours and travels.

The central bank has also allowed Indian companies to make bids in foreign currency for projects to be executed in the country, for which global bids have been invited. Companies can also advertise overseas even if they do not have export earnings.

It said that resident Indians are permitted to incur liabilities in foreign exchange and to make or to receive payments in foreign exchange, in respect of global bids where the central government had authorised such projects to be executed in India. Authorised dealers can sell foreign exchange to the resident Indian company which has been awarded the contract.

Also, 100 per cent export oriented units and units in export processing zones have been permitted to sell goods manufactured by them to other 100 per cent EOUs/EPZ units against payment in foreign exchange.

The RBI also added that if the concerned authorities permit EOUs, units in EPZs, Electronics Hardware Technology Parks and Software Technology Parks to sell goods to buyers in the domestic tariff area against payment in free foreign exchange, authorised dealers may sell foreign exchange to the buyers of such goods in the DTA, without prior approval of the Reserve Bank.

"Remittance towards the cost of advertisement in print media, radio, etc., outside India or on the internet, may be allowed by authorised dealers," the RBI added.

This announcement will open the doors for Indian corporates which were seeking RBI approval to air TV commercials on private foreign channels. The Foreign Exchange Management Act demands that a company wishing to air its commercials on these channels need to show export earnings for the last two years. A senior insurance official said that this notification makes things more transparent and simplier.

"We do not need to undertake accounting jugglery to get RBI approval". Of late, insurance companies have been sponsoring various cricket matches to make their presence felt in the country.

On Indians going overseas, the RBI said: "The cost of passes, collected in Indian rupees need not be adjusted in the travellers' entitlement of foreign exchange for private visits." Similarly, overseas hotel reservations made

in rupees will be excluded from the basic travel quota.

In essence, this means that an Indian traveller can now use his BTQ for other expenses like food and shopping, while stay and travel can be paid for in Indian rupees outside the $10,000 limit.

The RBI has also said that purchase of overseas prepaid telephone cards in rupees need not be adjusted in the travellers' entitlement of foreign exchange for private visits.

The central bank has also allowed tour operators to remit the cost of rail/road/water transportation charges outside India without its prior approval, net of commission/mark up, due to the Indian agent.

The RBI has also allowed agents in India of the overseas organisations issuing pre-paid telephone cards to remit the sale proceeds, net of their commission, to the issuers.

For consolidated tours arranged by travel agents in India for foreign tourists visiting India and neighbouring countries like Nepal, Bangladesh and Sri Lanka a part of the foreign exchange received has been required to be remitted from India to these countries for services rendered by travel agents and hoteliers against advance payments/reimbursement through an authorised dealer.

The RBI has now allowed such remittances after verification by authorised dealers that the amount being remitted to the neighbouring country does not exceed the amount actually remitted to India. However, it has said that the country of residence of beneficiary is not Pakistan.

The central bank has also allowed authorised dealers to sell foreign exchange for payment of fees to schools and educational institutions under the administrative control of foreign embassies.

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## Operation of guidelines for, Special One Time Settlement (OTS) Scheme for Small and Marginal Farmers, extended

RBI has earlier through its circular DBOD.No.BP.BC.80/21,04,117/2001-02 dated March 22, 2002 setting out guidelines for special One Time Settlement Scheme for loans up to Rs. 50,000 to small and marginal farmers by public sector banks. In terms of paragraph 2(I) (d) thereof, the guidelines will be operative only up to December 31, 2002. But after receiving requests from banks for extending the operation of the guidelines, the Reserve Bank of India keeping in view the drought/flood situation in different parts of the country and after consulting with the Government of India, decided to extend the operation of the guidelines, for a further period of 3 months i.e., upto March 31, 2003.

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## RBI announces Flexibility in Repayment of Pre-shipment Credit

Reserve Bank of India, through its circular IECD.No.9/04.02.02/2002-03 dated October 31, 2002, had announced the "subject to mutual agreement between the exporter and the banker, the repayment/prepayment of pre-shipment credit may henceforth be permitted". Exporters, therefore be allowed to repay/prepay packing credit whether availed of in rupees or in foreign currency out balances in Exchange Earner's Foreign Currency A/c (EEFC A/c) as also from rupee resources of the exporter to the extent exports have actually taken place.

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## New Policy on Rupee Export Credit Interest Rates

Reserve Bank of India, through its circular IECD No. 10/04/02.01/2002-03 dated November 7, 2002 has announced that:

— While RBI has prescribed the ceiling rates of interest for the first two slabs of pre-shipment credit and post-shipment credit, banks have the freedom to lend at rates below such ceiling rates, including at sub-PLR rates.

— In pursuance of the policy of deregulation of interest rates on export credit, with effect from May 1, 2003, the interest rates on second slab, i.e. 181 to 270 days for pre-shipment credit and 91 to 180 days for post-shipment credit are made free, and are to be decided by the banks subject to the approval of their Boards.

# INTERNATIONAL

## 1. IFAC Issues Exposure Draft on Compliance with International Financial Reporting Standards

*(New York/Oct. 28, 2002)* — The International Federation of Accountant's International (IFAC's) Auditing and Assurance Standards Board (IAASB) is proposing new guidance designed to clarify when financial statements are in full compliance with International Financial Reporting Standards (IFRSs), thus contributing to greater consistency in the application of these standards.

The exposure draft of International Auditing Practice Statement (IAPS) Reporting on Compliance with International Financial Reporting Standards makes clear that when an entity references compliance with IFRSs, auditors should issue an audit report with an unqualified opinion only if the entity complies fully with all applicable IFRSs.

"Examples have arisen of entities seeking to claim credit for complying with IFRSs when their financial statements have not complied in full with all applicable IFRSs," states IAASB Chairman Dietz Mertin. "This can be misleading and confusing to users of financial statements. The proposed practice statement is designed to assist auditors in communicating more clearly when financial statements comply with IFRSs." The proposed practice statement supplements guidance provided in ISA 200, *Objectives and General Principles Governing an Audit of Financial Statements*, and ISA 700, *The Auditor's Report on Financial Statements*. Specifically, it provides additional guidance when the auditor expresses an opinion on financial statements prepared —

In accordance with IFRSs;

In accordance with both IFRSs and relevant national standards and practices; and

In accordance with relevant national standards or practices, but which disclose in the notes to the financial statements the extent of compliance with IFRS.

(source: http://www.ifac.org)

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## FASB Issues Accounting Guidance to Improve Disclosure Requirements for Guarantees

*(Norwalk, CT/ November 25, 2002)*—In an effort to provide better and more transparent disclosure requirements for issuers of guarantees, the Financial Accounting Standards Board (FASB) has published Interpretation No. 45, *Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded.

The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements.

In commenting about the importance of the Interpretation to investors, FASB Senior Project Manager Robert C. Wilkins, stated, "By improving the required disclosures and accounting, the FASB's new accounting guidance will provide a more representationally faithful picture of a company's financial position and the risk it has assumed. The Interpretation should significantly improve the reporting of guarantees that are issued in conjunction with other transactions, such as when a seller also guarantees its customer's repayment of the funds borrowed to pay the seller for the customer's purchases."

This guidance does not apply to certain guarantee contracts, such as those issued by insurance companies or for a lessee's residual value guarantee embedded in a capital lease. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations would not apply to product warranties or to guarantees accounted for as derivatives.

The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002.

*(Source: www.fasb.org)*

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## AICPA Joins Others In Helping Businesses to Combat Fraud

**NEW YORK (November 19, 2002)** - Seven professional associations today are taking an important step towards restoring public confidence in financial reporting. Together, these organizations have developed a set of recommendations specifically to help boards of directors, audit committees and management prevent and root out fraud. These recommendations are contained in a new document titled Management Anti-fraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud.

The organizations sponsoring the document are the American Institute of Certified Public Accountants, Association of Certified Fraud Examiners, Financial Executives International, Information Systems Audit and Control Association, Institute of Internal Auditors, Institute of Management Accountants, and the Society for Human Resource Management. Other organizations that participated in reviewing and offering advice include American Accounting Association, Defense Industry Initiative, and the National Association of Corporate Directors.

"Research suggests that the most effective way to implement measures to reduce wrongdoing is to base them on a set of core values that are embraced by the entity," states the introduction to *Management Anti-Fraud Programs and Controls.*

The document identifies the measures an organization can take to prevent, deter and detect fraud, which can range from falsified financial statements to employee theft. Anti-fraud programs and controls, the document maintains, evolve from three fundamental actions:

- **Creating a culture of honesty and high ethics.** Directors and officers of corporations set "the tone at the top" for ethical behavior within any organization. Senior financial officers hold an important and elevated role in corporate governance. As members of the management team, they are uniquely capable and empowered to ensure that all stakeholders' interests are appropriately balanced, protected and preserved.
- **Evaluating anti-fraud processes and controls.** Neither fraudulent financial reporting nor misappropriation of assets can occur without a perceived opportunity to commit and conceal the act. Organizations should be proactive in reducing fraud opportunities by:
  - identifying and measuring fraud risks
  - taking steps to mitigate identified risks
  - implementing and monitoring effective internal controls
- Developing an appropriate oversight process. To prevent or deter fraud, an organization should have an appropriate oversight function in place. The audit committee should evaluate management's identification of fraud risks, implementation of anti-fraud measures and creation of the right "tone at the top." It should also make sure that senior management, particularly the CEO, has anti-fraud measures in place to protect investors, employees and other stakeholders. The audit committee also plays an important role in helping the board of directors fulfill its responsibilities to oversee the company's financial reporting procedures and system of internal controls.

Strong anti-fraud programs and controls, such as those described in this document, should help companies save revenue, enhance their market value, avert civil lawsuits and maintain a positive image.

*(Source: www.aicpa.org)*

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## IASC Foundation and XBRL PFS Taxonomy Release

The International Accounting Standards Committee Foundation and XBRL International (http://www.xbrl.org) have developed a comprehensive e**X**tensible **B**usiness **R**eporting **L**anguage (XBRL) taxonomy that models the primary financial statements that a commercial and industrial entity may use to report under International Accounting Standards (IAS).

At the 6th XBRL International Conference - held in Tokyo 11-15 November, 2002 - the XBRL International Steering Committee (ISC) voted unanimously to issue the IAS Primary Financial Statements (PFS) Taxonomy as an XBRL Recommendation and to issue the IAS Explanatory Disclosures and Accounting Policies (EDAP) Taxonomy as a Public Working Draft. Both the PFS and EDAP taxononomies are available on the Internet from XBRL International's XBRL Resource Center.

The Primary Financial Statements (PFS), Financial Reporting for Commercial and Industrial Entities, International Accounting Standards (the PFS

Taxonomy) includes XBRL representations of a classified balance sheet, an income statement, a statement of changes in equity and a cash flow statement. The PFS Taxonomy encompasses the core financial statements that private sector and certain public sector entities typically report in annual, semi-annual or quarterly financial disclosures as required by IAS 1, paragraph 7 (revised 1993) and IAS 34, paragraph 8 (revised 1998). Significant accounting policies and other explanatory notes are modelled in a separate XBRL taxonomy, the Explanatory Disclosures and Accounting Policies (EDAP) taxonomy, which has been released as a public working draft. Detailed information about XBRL and the IASC Foundation's XBRL taxonomy efforts can be found in the October 2002 issue of IASB Insight, the International Accounting Standards Board's quarterly magazine.

(*source: www.iasc.org*)

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## IASB Publishes Proposals on Accounting For Sharebased Payment

The International Accounting Standards Board (IASB) today published for public comment proposals on how entities should account for share-based payment transactions, including grants of share options to employees. The proposals are set out in exposure draft ED 2 *Share-based Payment*, on which the IASB invites comments by 7 March 2003.

There is no existing International Financial Reporting Standard on share-based payment. This gap in international accounting standards has become a cause for concern, because the use of share-based payment has expanded greatly in recent years. The objective of the proposals in ED 2 is to ensure that entities recognise share-based payment transactions in their financial statements, so as to provide high quality, transparent and comparable information to users of financial statements. In developing its proposals, the IASB concluded that share-based payment transactions involving grants of shares or share options to employees should be accounted for in the same way as other transactions in which an entity receives resources as consideration for its equity instruments. The proposals therefore include recognising an expense for the consumption of the resources received, whether in the form of employee services, other services, or goods.

(*source: www.iasc.org*)

ANNOUNCEMENT

## Background Material for Seminars on Accounting Standards

With the issuance of new accounting standards, it has been decided to issue background material for seminars on newly issued accounting standards. The objective of the background material is to generate discussion in the seminars to assist the participants in understanding the requirements of the accounting standards for effective implementation thereof. It is also decided to make the background material available for sale. In this process, the background material on following Accounting Standards (ASs) have been released:

1. AS 18, Related Party Disclosures,
2. AS 20, Earnings Per Share,
3. AS 21, Consolidated Financial Statements, and
4. AS 23, Accounting for Investments in Associates in Consolidated Financial Statements.

The above publications contain

- Key requirements of respective standards explained with examples,
- Frequently asked questions (FAQs),
- Comparison of the relevant standard with the corresponding International Accounting Standard and the Statement of Financial Accounting Standard issued by the Financial Accounting Standards Board in USA,
- Text of relevant standard, and
- Clarification(s)/Interpretation(s) issued on the respective standards.

The background material on AS 18, AS 21 and AS 23 is priced at Rs. 30 each, and background material on AS 20 is priced at Rs. 40, and can be obtained from the Institute's sales counters at New Delhi and the Regional Offices at Mumbai, Kolkata, Chennai and Kanpur.

Persons who desire to obtain above publications by post may send Demand Draft in favour of the Secretary, ICAI, for the cost of the background material plus the postal charges (Rs. 19, if desired by unregistered parcel; Rs. 36 if required by registered parcel).

The orders may be sent to Postal Sales Section, Institute of Chartered Accountants of India, Indraprastha Marg, New Delhi – 110 002.

It may also be noted that the background material on AS 16, Borrowing Costs, AS 17, Segment Reporting, AS 19, Leases and AS 22, Accounting for Taxes on Income, are under preparation and will be released shortly.