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The Chartered Accountant Student

Your Monthly Guide to the CA News, Information & Events

STUDENT'S JOURNAL

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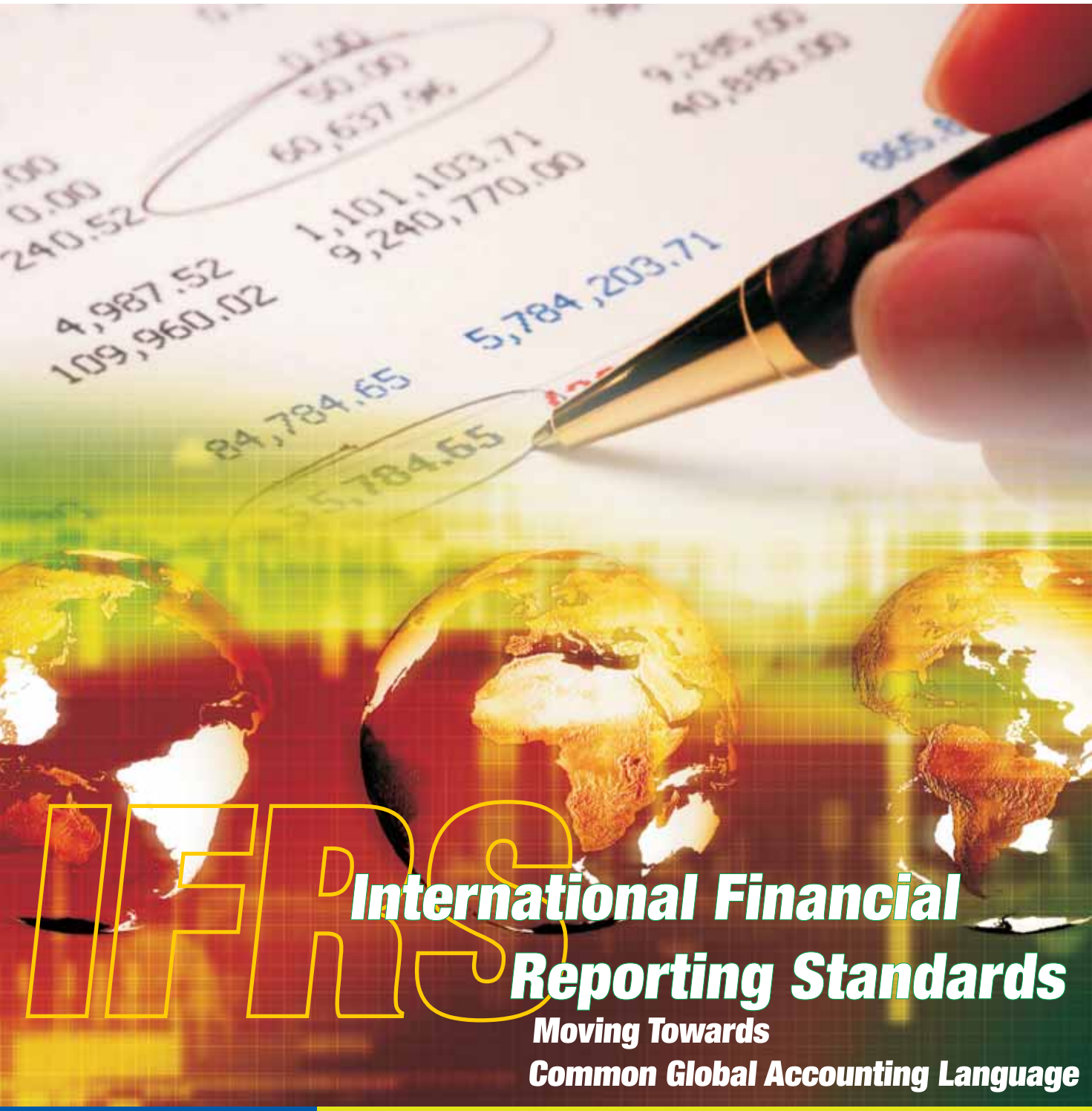


PRESIDENT'S COMMUNICATION

Dear Students,

As I mentioned in my previous communication that we at the Institute are fully determined to provide you salubrious learning environment for your multifaceted professional growth so accordingly we are working earnestly to implement our envisaged plan. I personally find that our students are full of promises and possess all the good qualities of head and heart. We need to motivate and guide them in right perspective. Believe my words, if given appropriate platform our students can do miracles in their professional world.

The CA course is in distance learning mode. Hence, to narrow down the geographical distance and to make learning process alive and smooth, on our part, it is being felt that the Institute should facilitate our students the facilities of traditional Class-room and Information Technology driven Virtual Class-room teaching as well. At the outset the coaching classes will be planned to run their operation in metro cities and later on will start functioning at all the major centers/towns. I am pretty sure that this initiative will cultivate a sense of belonging, discipline and sincerity amongst our generation next of CAs.

Knowledge is infinite that requires one to update on regular basis in order to meet the challenges of the competitive professional world. Keeping in view this subtle fact, our Board of Studies is under the process of bringing out Practice Manuals for the Final and PCC/ATC Courses so that you can develop a pragmatic approach to solve the practical problems. We have already hosted the practice manuals of some of the subjects on our Institute's website. We sincerely hope that you will make full use of the same.

With Best Wishes

Yours sincerely,

CA. Amarjit Chopra
President, ICAI, New Delhi

VICE-PRESIDENT'S COMMUNICATION

Dear Students,

At the outset, I would like to see the growth of your personality in multifarious dimensions. All of you should be aware that the dynamics of the professional world are changing swiftly and in order to survive amidst stiff competition, one has to develop his/her personality in a holistic manner. The modern day organizations tend to recruit candidates who are multi-task oriented and having pleasing personality so to maintain decency, dignity and decorum in the professional assignments.

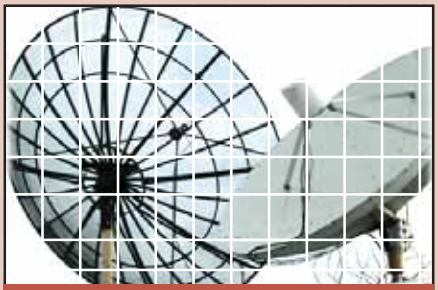
I expect that you should develop the attitude of **'never give up'**. Have faith in your abilities and skills. Keep your confidence level high. The profession of Chartered Accountancy is very demanding and rewarding as well. To meet the challenges of professional world, you need to sharpen your professional skills. Since you have chosen CA course not by any chance but by your choice so to embark successfully on your chosen path you need proper guidance and consultation. I am quite sure that your candid efforts will bring more glory to our Institute.

Once you decide and determine to reach the zenith, nothing can distract you to accomplish your set objectives. Do not grapple with trifling issues rather focus on your set objectives. Make your resolutions loud and clear. Take the optimum mileage of the facilities that are being provided to you by our Institute. I urge all of you to use the Study Material/Practice Manuals/ Suggested Answers/ Revision Test Papers/ Mock Test Papers/Model Test Papers of our Institute in a well-planned and cohesive manner. We are determined to cater to the requirements of your professional endeavours.

Wishing you all the best for a wonderful time ahead.

Yours sincerely,

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



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Message From The Chairman, Board of Studies

Dear Students,

I express my best wishes to the students appearing in May 2010 examinations. I advise you to pen down your experiences, observations and suggestions to me as to enable us to make the examination more rewarding and fruitful experience. The chartered accountancy training, education and examination are all oriented towards building world-class professionals with competency par excellence. It is, therefore, very important for you to concentrate to acquire deep-rooted expert knowledge and skills. In addition to the knowledge and education imparted by the Institute and the Chartered Accountant Firms providing training to CA students, it is **imperative that the students concentrate on overall development of their personality** and try to develop themselves as a professional who can be a perfect match for middle and top level management positions as well as a successful entrepreneur.

Our advisory services, as qualified practicing professionals need not only focus on compliance, accounting, finance, taxation, audit and other allied areas but also focus on business strategy, business development and growth. Building vibrant India free of corruption and full of efficient and effective businesses should be your utmost responsibility.

It will be very important for all of you to equip yourself with:

- Latest management techniques.
- Knowledge of business environments.
- Latest developments in business, industry and commerce in India and internationally.
- Developments on the economic front in India and abroad.
- Latest technology including use of information and communication technology at advance expert level.

It is important for us to hone your leadership and management skill so that you can develop your personality in a holistic manner. To achieve this objective, you have to really strive hard. Along with your regular studies and articleship training, I exhort you to take active part in co-curricular activites. The CA students need to concentrate on development of a Knowledge Reservoir not only in the field of commerce, law and accounting but also in the areas of arts, sports, politics and social sciences. CA students need to develop an aptitude to explore the nitty-gritty of various business practices. The students are the key concern for our Institute and we are dedicated to provide you the best possible infrastructure, educational opportunities and exposure to sharpen your hidden potentials. Undoubtedly, you have chosen a professional course, which is at par excellence with other professional courses. The opportunities available to you are very vast and lucrative. We are making our earnest efforts to meet the global challenges. Over the years, Chartered Accountancy has emerged as a unique profession of considerable importance in view of the integrated scenario of the globalization.

I once again wish you a great success in your examinations and all others professional endeavours.

Yours sincerely,

CA. Vinod Jain
Email : chairmanbos@icai.org

Global Convergence with International Financial Reporting Standards (IFRS)

CA.Seema Gupta*

The emergence of transnational corporations in search of money, not only for stimulating growth, but to maintain on-going activities has demanded flow of capital from all parts of the globe. This has brought millions of new investors into the capital markets whose interests are not constrained by national boundaries.

Each country has its own set of rules, regulations and reporting standards. When an entity decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply. This will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country. Translations and re-instatements of financial statements are of extreme importance in a rapidly globalizing world.

International Financial Reporting Standards (IFRS) - Background

The task of facilitating the movement towards increased comparability and harmonization world-wide was taken by International Accounting Standards Committee (IASC) [presently known as International Accounting Standards Board (IASB)], an independent body that was formed in 1973 by the professional accounting bodies in the United States and eight other industrialized countries. The goal of the IASC Foundation and the IASB is to develop, in the public interest, a single set of high-quality global accounting standards. In pursuit of this goal, the IASB works in close cooperation with stakeholders around the world, including investors, national standard-setters, regulators, auditors, intellectuals and others who have an interest in the development of global standards. Between 1973 and 2001, the International Accounting Standards Committee (IASC) released International Accounting Standards. The IASC restructured its organization in years 1997 to 1999, which resulted in the formation of IASB. Subsequently, IASB published its Standards in a new series of pronouncements called International Financial Reporting Standards (IFRS).

Why Global Convergence with IFRS?

In general terms, 'convergence' means to achieve harmony in relation to IFRS; in precise terms, convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS".

International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross-border filings. A strong need was felt by legislation to bring about uniformity, comparability, transparency and adaptability in financial statements. Having multiplicity of accounting standards around the world is against the public interest. It creates confusion, encourages error and facilitates fraud. The cure for these ills is to have a single set of high quality global standards. The goal of the IFRS is to create single set of accounting standards that can be applied anywhere in the world, allowing investors to compare the performance of business entities across geographic boundaries.

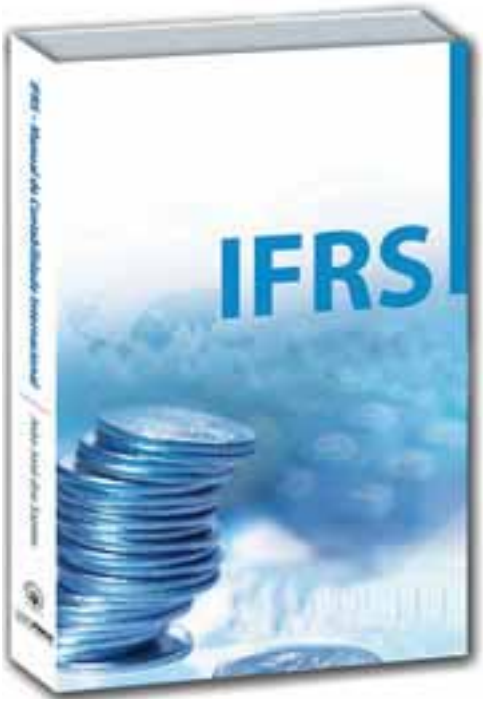
The harmonization of financial reporting around the world will help to raise confidence of investors in the information they are using to make their financial decisions. If accounting for

*The author is Asst.Director, ICAI

the same events and information produces divergent reported financial statements due to adoption of different set of accounting standards, then it is self-evident that accounting will be increasingly discredited in the eyes of users of the financial statements. Also for the companies with multiple listings in both domestic and foreign country, the convergence is very much essential.

Challenges in the way of Global Convergence

IFRS poses a great challenge to the drafters of financial statements and auditors. There is an urgent need to understand the complexities in IFRS implementation. Cultural, legal, and political obstacles may exist in the convergence path. With the assistance of the appropriate authorities, these intricacies can be minimized. Legislators, regulators, and standard-setting bodies need to be aware of the technical faults in the current convergence process and, where appropriate, they should take action to ensure reasonable progress. Reconciliation and restatement of financial statements is costly, not only in monetary terms but also in terms of resources. There are disagreements in some countries with the requirements of certain specific IFRS. The complicated nature of some IFRS is perceived as a barrier to convergence in many countries. All entities will have to consider their own roadmap and gear up for complying with IFRS differences. Convergence to IFRS will be quite challenging and entities should ensure that their convergence plans are designed in a phased manner.



IFRS adopted as Global Standards

The use of IFRS as a universal financial reporting language is gaining momentum across the world. Every major nation is moving towards adopting IFRS to some extent. Large number of authorities requires public companies to use IFRS for stock-exchange listing purposes, and in addition, banks, insurance companies and stock exchanges may use them for their statutorily required reports. Therefore, over the next few years, thousands of companies will adopt the international standards. The increased use of IFRS is not limited to public-company listing requirements or statutory reporting. Many regulatory and government bodies are looking to IFRS to fulfill local financial reporting obligations related to financing or licensing.

IFRS are used in many parts of the world, including the European Union, Australia, South Africa and Russia. More than 100 countries have required or permitted the use of IFRS since 2001 and the number is expected to increase to 150 by 2011. The Group of 20 leader countries (G20) reaffirmed their commitment to global convergence in accounting standards in September 2009 in a meeting held at Pittsburgh (United States), calling on 'international accounting bodies to redouble their efforts to achieve a single set of high-quality, global accounting standards within the context of their independent standard-setting process, and complete their convergence project by June 2011'. Some of the major countries that are seeking to converge with IFRS by 2011 include Canada, Korea, India and Brazil.

Indian Scenario

In the era of globalization, India cannot insulate itself from the developments taking place worldwide. High quality financial reporting is fundamental for an effective integrated capital market. Few Indian companies are already listed on overseas stock exchanges and many more are in the process of getting themselves listed. Also,

the recent stream of overseas acquisitions by Indian companies makes a compelling case for adoption of high quality standards to convince foreign enterprises about the financial standing of Indian acquirers. Convergence with IFRS would require several changes in Indian laws and decision processes.

In India, the Institute of Chartered Accountants of India (ICAI) is on the way towards convergence of its Accounting Standards (AS) with global reporting standards. Accounting Standards Board (ASB) was established by the ICAI in 1977 to frame high quality accounting standards in line with the international expectations. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRS and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in the country. Today, accounting standards issued by the Institute have come a long way. As the world continues to globalize, discussion on convergence of national accounting standards with IFRS has increased significantly. At present, the ASB of ICAI formulates the AS based on IFRS. However, these standards remain sensitive to local conditions, including the legal and economic environment. AS issued by ICAI depart from the corresponding IFRS in order to ensure consistency with legal, regulatory and economic environment of India.

Recognizing the growing need of full convergence of Indian Accounting Standards with IFRS, the ICAI has constituted a Group in liaison with government and regulatory authorities and this group has constituted separate core groups to identify inconsistencies between IFRS and various relevant acts. The ICAI has already started the process of issuing IFRS equivalent AS and revising the existing standards and Guidance Notes to bring them at par with IFRS. ASB has, so far, issued thirty two Accounting Standards. In total, seventeen existing standards are under revision in line with IAS/IFRS, out of which, exposure drafts of ten revised standards are still open for public. IFRS Task Force has also been formulated to examine various issues involved in the convergence process. The Task Force has proposed for adoption of IFRS, in a phased manner, for listed entities and public interest entities from accounting periods commencing on or after April 1, 2011. On 22nd January 2010, the Ministry of Corporate Affairs had issued a press release setting out the roadmap for convergence with IFRS for certain defined entities with effect from accounting periods commencing on or after April 1, 2011. The roadmap requires IFRS to be made applicable in a phased manner. (An abstract of the roadmap is given separately).

The ICAI has also classified IFRS into four broad categories as part of its convergence strategy, which can be detailed as follows:

- First category describes IFRS which can be adopted immediately or in the immediate future in view of no or minor differences (for example, construction contracts, borrowing costs, inventories).
- Second category includes IFRS which may require some time to reach a level of technical preparedness by the industry and professionals, keeping in view the existing economic environment and other factors (for example, share-based payments).
- Third category includes IFRS which have conceptual differences with the corresponding Indian Accounting Standards and where further dialogue and discussions with the IASB may be required (consolidation, associates, joint ventures, provisions and contingent liabilities).
- Last category comprises of IFRS which would require changes in laws/regulations because

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IFRS Roadmap for Indian Companies An Abstract

IFRS Roadmap - Background

A meeting of the Core Group constituted by the Ministry of Corporate Affairs for convergence of Indian Accounting Standards with International Financial Reporting Standards (IFRS) was held on 11th January, 2010. The meeting was attended by various officials from the Institute of Chartered Accountants of India (ICAI), Ministry of Finance, Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Reserve Bank of India (RBI), Comptroller and Auditor General (C&AG), Pension Fund Regulatory and Development Authority (PFRDA), Industry representatives and other experts. The Core Group discussed the report submitted by the Sub-Group headed by Mr. Malegam to finalize the roadmap for achieving convergence of Indian Accounting Standards with IFRS by April, 2011. The amendments required in the Companies Act, 1956, the related Schedules - VI and XIV and Accounting Standards Rules for the purpose of convergence were also discussed. There were detailed deliberations on the implementation challenges especially those related to legal and accounting framework and transitional issues.

Two Separate Sets of Accounting Standards

The core Group decided that there will be two separate sets of Accounting Standards under Section 211(3C) of The Companies Act, 1956, which are as follows:

- **Indian Accounting Standards converged with the IFRS**

  These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These standards shall be applied for all companies falling under Phase I to Phase III.

- **Indian Accounting Standards notified in the Companies (Accounting Standards) Rules, 2006**

  These are the standards used, at present, by Indian Companies under the Companies Act, 1956. Companies not falling within the threshold limits prescribed for IFRS compliance in the respective phases shall continue to use these standards in the preparation and presentation of financial statements.

Phases for Implementation

On 22nd January 2010, the Ministry of Corporate Affairs had issued a press release setting out the roadmap for convergence with IFRS for certain defined entities with effect from accounting periods commencing on or after April 1, 2011. The roadmap requires IFRS to be made applicable in a phased manner. The press release suggests that the IFRS will be implemented, in three phases, starting from April 1, 2011 as shown in the table given below:

Phase	Date for conversion	Coverage
I	Opening balance sheet as at 1st April, 2011	Companies which are part of NSE Index - Nifty 50 Companies which are part of BSE Sensex - BSE 30 Companies whose shares or other securities are listed on a stock exchange outside India Companies, whether listed or not, having net worth of more than Rs. 1,000 crore
II	Opening balance sheet as at 1st April, 2013	Companies not covered in phase I and having net worth exceeding Rs. 500 crore.
III	Opening balance sheet as at 1st April, 2014	Listed companies not covered in the earlier phases.

Note: *If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year.*

Separate Roadmap for Insurance Companies, Banking Companies and Non-Banking Finance Companies

The Core Group approved the Roadmap in respect of Insurance Companies, Banking Companies and Non-Banking Finance Companies on 29th March, 2010. The Core Group referred to the earlier Roadmap for Convergence agreed to, in its meeting held on 11th January, 2010 in respect of companies, other than insurance companies, banking companies and Non-Banking Finance Companies. The recommendations of the Core Group can be summarized as under:

- **Insurance companies**

All insurance companies will convert their opening balance sheet as at 1st April, 2012 in compliance with the converged Indian Accounting Standards.

- **Banking companies**

(a) All scheduled commercial banks and those urban co-operative banks (UCBs) which have a net worth in excess of Rs. 300 crores will convert their opening balance sheet as at 1st April, 2013 in compliance with the first set of converged Indian Accounting Standards.

(b) Urban co-operative banks which have a net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores will convert their opening balance sheets as at 1st April, 2014 in compliance with the first set of converged Indian Accounting Standards.

(c) Urban co-operative banks which have a net worth not exceeding Rs. 200 crores and Regional Rural banks (RRBs) will not be required to apply the first set of Accounting Standards i.e. the converged Indian Accounting Standards (though they may voluntarily opt to do so) and need to follow only the existing notified Indian Accounting Standards which are not converged with IFRSs.

- **Non-Banking Financial companies**

(a) NBFCs which are part of NSE – Nifty 50 or are part of BSE - Sensex 30, and NBFCs whether listed or not, which have a net worth in excess of Rs.1,000 crores will convert their opening balance sheet as at 1st April, 2013 if the financial year commences on 1st April (or if the financial year commences on any other date, then on the date immediately following 1st April, 2013) in compliance with the first set of converged Indian Accounting Standards

(b) All listed NBFCs and those unlisted NBFCs which do not fall in categories specified in (a) and which have a net worth in excess of Rs. 500 crores will convert their opening balance sheet as at 1st April 2014 if the financial year commences on 1st April (or if the financial year commences on any other date, then on that date following 1st April 2014) in compliance with the first set of Accounting standards (i.e converged Indian Accounting Standards).

(c) Unlisted NBFCs which have a net worth of Rs. 500 crores or less will not be required to follow the first set of accounting standards (i.e the converged Indian accounting standards), though they may voluntarily opt to do so, but need to follow only the notified Indian accounting standards which are not converged with the IFRSs.

Commitment towards convergence with IFRS

The Ministry of Corporate Affairs reiterates its commitment to carry out the convergence of Indian Accounting Standards by April, 2011. The Ministry will carry out the exercises for necessary amendments in the Companies Act, the related Schedules - VI and XIV as well as the Accounting Standards Rules would also be carried out simultaneously so that the necessary legislative changes can take place to facilitate convergence. In a written reply to a question, Ministry has informed the Government that the converged Indian Accounting Standards are proposed to be made applicable to companies registered under the Act in a phased manner with effect from 1st April, 2011.

continuation of page 7

compliance with such IFRS is not possible until the regulations/laws are amended (for example, accounting policies and errors, property and equipment, first-time adoption of IFRS).

In our country, IFRS convergence is subject to direct or indirect control of several regulators, such as National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs (MCA), the Reserve Bank of India (RBI), the Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI). Further the Indian Companies Act, 1956 provides guidance on accounting and financial reporting matters. The IFRS requirements of Schedule VI of the Act, which currently prescribes the format for presentation of financial statements for Indian companies, is substantially different from the presentation and disclosure requirements under IFRS. Convergence with IFRS will also require significant changes from the tax authorities [Central Board of Direct Taxes (CBDT)] on treatment of various accounting transactions.

Conclusion

The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and, thus, lowers their risk of errors of judgment. It has the potential to create a new standard of accountability and greater transparency, which are of significant value for market participants including regulators. Focused on realistic economic representation, financial reporting should address the legitimate needs of key stakeholders and provide a comprehensive overview of financial information. Every stakeholder should gain from active participation in shaping the successive phases of the convergence process.

The convergence with IFRS is now at a very crucial stage in India. There is a need to develop an enabling regulatory framework and infrastructure that would assist and facilitate IFRS convergence. The government would need to frame and revise laws in consultation with the NACAS and the ICAI. Similarly, regulators such as IRDA, RBI, SEBI and CBDT would have to consider accepting IFRS in place of the existing set of prescribed accounting rules. Convergence is lengthy process and it may take years to reach the important goal of a single set of accounting standards.

Invitation to Contribute Articles in the Journal

Articles are invited from members, academicians, students and others for inclusion in the journal. An article should comprise of 800 to 1200 words only. Every year, the Institute selects two best articles by the students and Cash prize and a Certificate will be awarded to the winners at the Annual function of the Institute.

The authors are advised to enclose the following along with the articles:-

1. A signed undertaking stating that the article is original in all respects and does not infringe any copyright and has not been published or sent for publication elsewhere.
2. A passport size colour photograph (with full name and registration number written on the reverse).
3. A soft copy of the article with complete communication and E-mail address.

Articles received without the above will not be considered.

All correspondence in this regard should be addressed to The Board of Studies, ICAI, A-94/4, Sector-58, Noida-201301.

A Tribute to Prof. CK Prahalad

We at our Institute feel deeply shocked at the sad and untimely demise of Prof. C. K. Prahalad; a prominent thought leader, famous management *guru* and an illustrious professor. He was known for his work specializing in corporate strategy focusing on top management in large, diversified, multinational corporations. His career was not limited to academia; he equally earned his reputation as a corporate consultant par excellence, working with a wide cross-section of companies. He has authored many miraculous books combining practical and academic insights. He was also known widely for his interest in the "Fortune at the Bottom of the Pyramid" and his book on the subject is considered an authoritative exposition of the potential for large corporations to improve the conditions of the 'poorest of the poor'. He will always be remembered for leading global thinking in bottom of the pyramid markets. As a teacher, Prof. Prahalad motivated his students to stretch their minds. We pay our respectful homage to the departed soul with a heavy heart. May his soul rest in peace!

Guide to Accounting for Financial Instruments and Derivatives

By Vinod Kothari*

Introduction

Accounting for financial instruments is a very nebulous concept – the amount of standard writing currently going on in this field is both elaborate and hectic. AS 30, AS 31 and AS 32 are Indian Accounting Standards that correspond, respectively, to International Accounting Standard (IAS) 39, IAS 32 and International Financial Reporting Standard (IFRS) 7. IAS 39, for instance, is being adopted in India in its existing form – but there is already an ongoing project to replace IAS 39 in 3 phases. First phase is already done - IFRS 9 implements that. For the second phase, an exposure draft is already there, and for the third, an exposure draft is expected during the year.

What is mark to market accounting?

What is the big change that accounting standards on financial instruments bring about? Clearly, the big change is that fair value accounting, also called mark-to-market accounting, is taking over the age-old historical cost accounting. By the way, "mark-to-market" is a stock market term; "fair value" is more preferable in the accountants' jargon. The accountants' global notion is that assets are stated at their historical costs – we do not book a gain or a loss until we actually realize it. In case of a loss, if the loss is not transient, there may be a case for making a provision, or in case of currently traded assets, write down is allowed if the book value is more than the market value.

However, as it is generally felt that historical costs are less relevant than prevailing values, there is a general consensus, at least for the time being, that fair values provide more current and relevant information. How long will this view last is by itself a question – there are several strong contrarian views also, particularly owing to the pro-cyclicity of mark-to-market accounting.

Basic structure of AS 30

The key components of AS 30 are as follows:

- What are financial instruments, financial assets and financial liabilities?
  - An important question in this is what derivatives are, as all derivatives are by definition defined as financial assets.
  - Identification of embedded derivatives in non-derivative contracts, and decision whether such derivative requires separation.
- When is a financial instrument recognized on books?
- When is a financial instrument de-recognized from books?
- At what value is a financial instrument recognized at the inception?
- At what value is a financial instrument carried in books over time?
- Will the entity be permitted to adopt hedge accounting for derivatives that seek to hedge risk of assets and liabilities which are not fair-valued?
- If so, what type of hedge is it, and what is the resulting effect of the hedge on the revenue statement/ balance sheet?

What is a financial instrument?

The accounting standards AS 30, 31 and 32 apply to financial instruments. If the asset/liability in question is not financial instrument, there is no question of applying the standard. A financial instrument may be a financial asset or a financial liability. Briefly stated, a right to receive cash, or a right to receive another financial instrument in exchange, is a financial asset. For example, every loan or receivable is a right to receive cash, and hence, is a financial instrument. An equity share is also a right to receive dividends

*The author is a member of the Institute (Mem.No 52078)

and distribution of assets, and hence, is a financial asset. A machine or a building is not, and hence, is a non-financial asset. A convertible bond is not an obligation to pay cash, but an obligation to convert the same into equity – which is also a financial asset. As for understanding whether the asset in question is a financial asset, it is not the functional test that is applied – it is the nature of the asset. For instance, no matter whether the entity in question is trading in shares or holding it as an investment, it is still a financial asset. Correspondingly, an obligation to pay cash or another financial instrument in exchange is a financial liability. However, the entity's own equity instruments are not financial liabilities. Therefore, all obligations to pay cash or exchange other financial instruments, other than what is treated as the entity's own equity instruments, will be treated as financial liabilities.

What is a derivative?

A derivative, as the name implies, is something that derives its value from an "underlying item". There are two other features of derivatives – (a) they require no or minimal initial investment, or at least the investment required is not commensurate with the value of the underlying; (b) they can be net-settled, that is, settled by way of differences rather than actual delivery of the underlying.

Derivatives are essentially options, forwards and swaps. There is yet another form of derivative – futures, but futures are typically exchange-traded and will not be found embedded into non-derivative contracts. There might sometimes be options, forwards or swaps embedded into contracts which are non-derivative contracts. The simplest example is a convertible bond. The convertible bond can be de-composed into two: a non-convertible bond and a call option on equity shares. There might, similarly, be derivative contracts embedded in non-financial contracts too. If there is an embedded derivative whose economic substance is different from the non-derivative asset where it is embedded, then the derivative part requires separation, unless the composite asset is being fair valued.

Recognition of a financial asset or liability

As a financial asset is a right or liability pertaining to cash flows, the date of recognition should be the date on which the entity becomes entitled to, or obligated to, the cash flows and not the actual date of the inflow or outflow. Timing of recognition of financial asset is also dependent whether accounting is done by trade date or settlement date.

De-recognition of financial asset

The rules on de-recognition of financial assets look simple, but they are very complicated and they become particularly pertinent in case of transactions like securitization or transfers of financial assets. The broad rule is that in order to de-recognize financial assets from the books of the seller, a mere legal sale of the asset is not enough, it should be backed by either transfer of risks and rewards, or surrender of control by the seller. For example, Bank A sells a portfolio of loans either to Bank B or to the capital market. It is quite obvious for the seller to continue to retain risk, or retain rewards, or both – for example, typical credit enhancement may be a first loss risk retained by the seller. Residual profits, that is, the actual returns from the asset minus a predetermined rate normally flow back to the seller. In such a case, a transfer of risks and rewards has not taken place, and that brings us to step 2 in the analysis.

Step 2 is – even if a transfer of risks/rewards has not taken place in entirety, has the seller surrendered control over the asset the way it would happen in a commercial transaction of sale? In a commercial transaction of sale, a sale would pass on to the buyer the right to freely transfer or pledge the acquired asset. If the seller has restrained that right of the buyer, or the buyer does not have a practical ability to re-sell the asset, then the sale is disregarded, and the asset is not de-recognized from the books of the seller.

If an asset is not removed from the books of the seller, there is no sale treatment at all, and hence, there is no question of booking a gain or loss on the sale. The asset continues in the books of the seller, and to the extent of money received by the so-called sale, a loan liability is brought up. It is also important to note that if the seller has not been able to put an asset off the balance sheet, then the buyer will not be able to put the asset on the balance sheet.

De-recognition of financial liability

An entity should remove a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e., when the obligation specified in the contract is discharged or cancelled or expired.

Initial and subsequent valuation of financial instruments

At what value is initial measurement done?

Initially, all financial assets are measured at fair values. Unless there are reasons to suggest the contrary, the purchase or acquisition price of a financial asset, or the contractual value of a liability, is its fair value also.

Classification of financial assets and liabilities

For the purpose of whether or not fair valuation is to be done, financial assets and liabilities are classified as:

- **Financial assets**
  - Loans and receivables
  - Hold to maturity investments (HTM investments)
  - Available for sale assets (AFS assets)
  - Trading assets
- **Financial liabilities**
  - Trading liabilities
  - Non-trading liabilities

Each of the terms mentioned above have defined meanings; let us understand each.

Loans and receivables

The word "receivables" is simple – any sum of money that has become a receivable or fallen due. Loans mean loans originated by the enterprise, and not held in marketable form. A loan portfolio acquired by Bank A from Bank B is not; therefore, fit to be put into this category. If loans are originated with intent of selling, then also it is not fit to be put into this category.

Hold to maturity (HTM) investments

These are investment that (a) have a specified maturity, and (b) are intended, by way of a positive intent, to be held to maturity. Equities, for example, cannot be classified as HTM as equity does not have any specified maturity at all. The entity must have the ability and positive intent to hold the instrument to maturity. The classification of an instrument as HTM should be done very carefully.

Trading assets

Assets for which there is a ready and liquid quoted market, which are acquired for the purpose of short-term trade, and where mark-to-market valuations are possible on every trading day, are trading assets. Assets do not fall under this category merely because there is a market for the asset – the entity must have acquired the asset for short term trading intent.

Available for sale assets (AFS):

This is the residual category for assets – anything which is not a loan and receivable, or is not positively intended to be held to maturity, or is not a part of trading stock, is held for sale asset. That is, if opportunity or need arises, the entity will be willing to sell the asset.

Trading and Non-trading liabilities

Liabilities having a liquid market which are issued for re-acquisition in the short term, for example, to take advantage of an increase in interest rates, may be classified as trading liabilities. A good example is issuance of certificates of deposit by banks. All liabilities other than trading liabilities are non-trading in nature.

At what value should subsequent measurement be done?

The valuation approaches are essentially the following:

- **Fair value through Profit and Loss Account (FVTPL):**
  - All derivatives
  - All trading assets
  - All non-trading liabilities
- **Fair value through Other Comprehensive Income (FVTOCI):**
  - Available for sale assets, other than unquoted equity
- **Amortized cost**
  - All loans and receivables
  - All HTM investments

FVTPL

FVTPL basically means that the asset/liability will be regularly fair-valued, and will be carried in books at fair values, and the changes in fair values are taken to current P& L. That would mean historical values become completely irrelevant. For instance, Mr. X is holding a portfolio of equities as a part of his trading book. Mr. X records the gain/loss in the books due to fluctuation in the market prices of his portfolio on a regular basis. The returns by way of dividends are also a part of the trading profits/losses. Since FVTPL treatment is meant only for assets/liabilities for which quotes are readily available, there should not be any difficulty in marking these instruments to market on regular basis. In fact, it is in context of traded instruments only that the word "mark-to-market" has relevance – for other assets, the word "fair value" would be more appropriate.

All derivatives, including embedded derivatives that have been separated, require FVTPL. This is one of the reasons why derivatives require a separate treatment (the other reason is the possibility that a derivative may be a hedging instrument). For example, in case of a convertible bond, the embedded equity option being a derivative will be treated under FVTPL and the remaining investment in fixed income bonds may be classified as AFS.

FVTOCI

The difference between FVTPL and FVTOCI is simple and apparent: in the latter case, the asset is fair valued, but the gain or loss on valuation is not taken to current profit. It is kept in "other comprehensive income" in the shareholders' equity. What this means is that these gains/losses do not affect current reported profits – nevertheless, they affect the balance sheet and net worth of the entity. Assets get reflected at fair values – hence, unrealized gains remain in Other Comprehensive Income (OCI). These gains/losses are brought into current profit/loss when the asset in question is sold. All 'Available for Sale (AFS)' assets are valued on FVTOCI. An exception is made in case of unquoted equity, where determination of fair value is difficult and therefore, historical cost valuation is permitted.

Amortized cost

Loans are carried in books at amortized cost. Amortized value of the loan is computed by applying "effective interest rate" or Internal Rate of Return (IRR) of the loan. In case of HTM investments, of course, the amortized value may be different from the nominal value of the investment, as the investment may have been acquired at more, or less, than the par value.

Derivatives - Hedging treatment

The standard provides that in case of a derivative which is a hedging instrument, against an on-balance sheet item (a hedged item), if the conditions of "hedge effectiveness" are satisfied, the hedged item and the hedging instrument may both be FVTPL-ed.

Just saying that a derivative is a hedge, is not enough. The hedge has to be established as effective. "Effective" means the value of the derivative moves opposite or symmetrical to the value of the hedged item, and the anticipated changes in the two values take a proportion of 80:125. For example, if the value of the derivative gains by 4, and the value of the asset declines by 5, the proportion is 80:100, which is acceptable. If the value of the derivative gains by 4, and the value of the asset declines by 7, the proportion is 80:140, which means the hedge is not effective. It may be noted that it is not the entire value of an asset or liability that can be designated as a hedged item. For example, the change in the value of a loan may happen due to interest rate change, as also credit quality of the loan.

Types of hedges

Hedges are commonly classified as fair value hedges and cash flow hedges. A hedge against the variability of cash flows is a cash flow hedge. For example, if I am carrying a floating rate liability, the fact that the base rate may go up will affect my cash flows. To hedge the same, I may enter into a floating-to-fixed Interest Rate Swap (IRS). This transforms my cash flows from variable to fixed cash flows –hence, it is a cash flow hedge. Lots of forex derivatives are also cash flow hedges. On the other hand, a hedge against fair value of an asset or liability is a fair value hedge. Simplest example is a fixed-to-floating IRS, or credit default swap, etc.

In case of fair value hedges, what affects the entity is the change in fair value. As much as the hedge is effective, it would offset exactly against changes in the fair value of the hedged item. Hence, the effective part of the change in fair value of the hedging derivative, and the hedged item, are both taken to profit and loss statement, where they neutralize each other.

If the hedge is a cash flow hedge, the effect on revenue is only to the extent the cash flows have changed during the year. For example, if I convert a floating rate liability into fixed rate by floating-to-fixed IRS, the current revenue is affected only by the increased interest for the accounting period that has come into the profit and loss statement. However, the change in the fair value of the IRS includes valuation of cash flows for the entire term of the swap. So, changes in the fair value of the cash flow hedging derivative are taken to OCI, from where they are periodically released as the changes in interest cost going to profit and loss statement affecting current revenues.

There is a third type of hedge – net investment in foreign enterprise, but being relatively uncommon, we omit discussion on that in this article.

Fair value

The above discussion gives a broad and extensive idea about what assets, liabilities, and derivative contracts require fair valuation.

What is fair value? If the value of an instrument is available in a ready and liquid market, the market value is the fair value. In case of instruments where market values are not available, or the market is not liquid, the valuation techniques rely on discounted cash flow (DCF) techniques.

In case of derivatives, fair valuation techniques for valuation of options/swaps or forwards, as may be applicable, shall be applied. Since fair valuation may involve substantial extent of assumptions, AS 32 corresponding to IFRS 7 requires the fair values to be classified into three different levels based on transparency of the valuation.

Impairment

Fair valuation is not all that AS 30 requires. It requires continuous monitoring of impairment losses too. There are some significant differences between impairment and fair valuation that need to be understood:

- First, impairment relates to an expected cash flow itself, whereas fair valuation relates to the fair value of a cash flow. For example, fair value of a fixed rate loan may go down due to upward movement of interest rates. Credit spreads for the borrower going up might lead to fair value coming down. However, impairment relates to apprehended losses on collection of the cash flow itself. If a loan, or portfolio of loans, may suffer losses due to bad debts or delinquencies, that is a case of impairment.
- Impairment relates to assets only, whereas fair valuation pertains to both assets and liabilities.
- Impairment cannot lead to a gain – fair valuation can be a gain or a loss.

Impairment will affect assets being carried at cost, amortized cost, or FVTOCI. In case of assets being carried at cost or amortized cost, loss due to impairment will be taken to current P&L, and effective rate of return will be recomputed based on re-estimated cash flows. In case of assets being FVTOCI-ed, to the extent of impairment loss, the gain if any lying into OCI will be brought into current profit and loss statement. In case of assets that are FVTPL-ed, presumably the changes in market value have captured all impairment losses too.

References: AS 30 “Financial Instruments: Recognition and Management”

AS 31 “Financial Instruments: Presentation”

AS 32 “Financial Instruments: Disclosures”.

Competition Law and IPR Regime An Overview

Dr. Alok Ray *

The First Prime Minister of India Pandit Jawaharlal Nehru in his address to the Aligarh Muslim University on 24th January, 1948 observed that "For my part, I wish to say that, in spite of everything, I have a firm faith in India's future …Although many of my old dreams have been shattered by recent events, yet the basic objective still holds and I see no reason to change it. That objective is to build a free India of high ideals and noble endeavours where there is equality of opportunity for all' and to create this opportunity in the initial years, India adopted a socialistic approach. The era of planned development was ushered in with the launch of first five year plan in 1951. To fulfil the 'tryst with destiny', we have our "India Vision 2020" which anticipates a resurgent and new India, achieving cent percent literacy, eradicating unemployment and poverty, attaining 9% annual growth rate and quadrupling per capita income.

We inherited a weak and colonial economic Structure, where monopoly was the rule. To regenerate the economy, we need a competitive market. To ensure that within that socialistic framework, the first competition law, the Monopolies and Restrictive Trade Practices Act (MRTP Act) was enacted in 1969 to curb such practices in the market. The Economic Reforms of 1991 emphasised the need to review the law. This lead to setting up of a high level committee of competition policy and law namely Raghavan Committee. This Report gave birth to the Competition Act 2002. The Competition Act 2002 was passed by Parliament in December 2002 and received the ascent of the President of India on 13th January, 2003. This Act is an integral part of India's economic reform and the statement of objects and reasons, states the reason for enacting the new law as "In the pursuit of globalization, India has responded by opening up its economy, removing controls, and resorting to liberalization. The natural corollary to this is that the Indian market should be geared to face competition from within the country and outside. The Monopolies and Restrictive Trade Practices Act, 1969, has become obsolete in certain respects in the light of international economic developments, relating more particularly to competition laws, and there is a need to shift our focus from curbing monopolies to promoting competition.' Economic theory asserts that Competition itself maximises consumer interest. We have started enjoying benefit in the Tele communication, Electronics, Air and other services sectors.

The Act prohibits and regulates:-

1. Anti -competitive agreements, prohibited by section 3 of the Act
2. Abuse of dominant position, prohibited by section 4 of the Act, and
3. Combinations, regulated by section 5 and 6 of the Act.

Anti-Competitive Agreements

Section 3(i) prohibits any agreement with respect to production, supply, distribution, storage, acquisition, or control of goods or provision of services which causes or is likely to cause an appreciable adverse effect on competition within India. Further, section 3(2) provides that any agreement in contravention of this provision shall be void.

Section 3(3) also covers cartels. A cartel is defined in section 2(c), which states that a cartel includes an association of producers, sellers, distributors, traders, or service providers, who, by agreement amongst themselves, limit, control, or attempt to control the production, distribution, sale or price of, or, trade in goods or provision of services. This definition is inclusive and wide. A cartel of producers or sellers usually seeks to do two things: raise prices and limit output. Cartel is a horizontal agreement between producers of goods or providers of services for price - fixing or sharing of market and is generally regarded as the most pernicious form of anticompetitive agreement.

Abuse of dominant position

Section 4(1) prohibits any enterprise from abusing its dominant position. The term 'dominant position' has been defined in the Explanation (a) of section 4, which states that dominant position 'means a position of strength,

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enjoyed by an enterprise in the relevant market in India, which enables it to (i) operate independently of competitive forces prevailing in the relevant market; or (ii) affect its competitors or consumers or the relevant market in its favour.' Dominance means acquisition of significant market power, which enables the enterprise to increase the price or limit production independently of competitions as well as customers. The list of abuses is expressly mentioned in the Act and is exhaustive. Predatory pricing is one of the abuses which can be established against a dominant player if the selling price is below cost and there is intent to oust competition.

Regulation of combinations

The Act contains provisions for regulation of combinations i.e. for merger control. A combination has been defined in section 5 and it includes and acquisition and any merger or amalgamation. Merger control is an ingredient of the competition law. Combinations include mergers, amalgamations and acquisition of control, shares, voting rights or assets. The scrutiny of a combination under the Act is usually expected to take place before it comes into effect with an idea of preventing a possible anti competitive behaviour which may adversely affect the consumers. Combinations likely to have an anti competitive effect can be permitted after such effects are removed by modifications. Section 6 provides for regulations of combinations.

Extra Territoriality

The Act has extra territorial jurisdiction. Section 32 provides that the commission shall have the power to inquire into an agreement or abuse of dominant position or combination even if the act has taken place outside India or the party or enterprise is outside India provided that it has an appreciable adverse effect on competition in the relevant market in India. Thus the governing factor is the effect in the domestic market. Further, the commission is allowed under the proviso to section 18 to enter into memorandum or arrangement with any agency of any foreign country, which the prior approval of the Central Government. This provision is in support of the extra – territorial jurisdiction of the Commission.

Enforcement

The Competition Commission of India (CCI), established under the Act, can direct any enterprise or person or their associations to discontinue with anti competitive practice. The Commission can impose penalty upto 10% of the turnover for each year of cartelisation. The commission has the power to modify any agreement or direct an enterprise to abide by its orders.

The Commission is also empowered to order division of an enterprise which enjoys dominant position in order to prevent abuse of such position.

Appeals against orders of the Commission can be challenged before the Competition Appellate Tribunal. Appeals against orders of the Tribunals can be challenged in the Supreme Court.

There was a delay in the implementation of the Act as some of its provisions were challenged before the Supreme Court of India. The commission has been performing advocacy functions over the last few years. Subsequently, several changes were brought to the Act by the Competition Amendment Act 2007 and some of its provision including prohibition of anti competitive agreements came into effect on 15th May, 2009. However, the law is yet to be effected in totality.

The Finance Minster in the budget speech while presenting the budget and its proposals for financial year 2009-10 specifically referred to the establishment of Competition Commission of India and the role it is expected to play. To quote:-

"Para 42 - The Government has established Competition Commission of India, an autonomous regulatory body to promote and sustain competition in markets, protect interests of consumers and to prevent practices having adverse effect on competition. An Appellate body headed by a retired judge of the Supreme Court has also been constituted."

"Para 43 - The benefits of competition should now come to more sectors and their users and consumers. Now is the time for us to work on these aspects to eliminate supply bottlenecks, enhance productivity, reduce costs, and improve quality of goods and services supplied to consumers."

Scope of Research Consultancy and Internship

The students and Members of ICAI and other Professional Institutes can pursue internship in CCI in any area of competition law and policy which includes market structure, entry barriers, combinations, anti competitive practices, abuse of dominance position, IRR and Competition Law, relevant market etc. Indeed, the horizon is ever expanding for the accountancy profession. No one understand the financial management and market forces better that a Chartered Accountants. Whether it is consultancy or research or inquiry as well as investigations under the Act, the accountancy profession has to take a lead role to achieve the objective of competition law. Under section 17, the Commission has the power to engage experts and professionals who have special knowledge and experience in economics, law, business or such other disciplines related to competition to assist the commission in the discharge of its functions.

Intellectual property and competition law

Intellectual property law is required to be designed and applied in consonance with other legal disciplines particularly competition law. While IP Law expressly subjects intellectual assets to the exclusive control of right owners, the competition law has the objective to ensure competition. Competition stimulates innovation. Many important innovations are the result of competition. Competition among professional firms can spur the invention of new or better products or more efficient services. Companies may invent lower cost manufacturing processes, thereby increasing their profits and enhancing their ability to compete.

The process of expanding international IP regime is synonymous with 1994 agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), an outcome of the Uruguay round of General Agreement on Tariffs and Trade. TRIPS is administered by the Geneva based World Trade Organization. It envisages enforceable global minimum and high standards of protection and enforcement of IP rights.

The Indian Competition Law has addressed the conflict in Section 3 (5) of the Act as follows :-

"Nothing contained in this section shall restrict–

(i) The right of any person to restrain any infringement of, or to impose reasonable conditions, as may be necessary for protecting any of his rights which have been or may be conferred upon him under :-

(a) The Copyright Act, 1957

(b) The Patents Act, 1970

(c) The Trade and Merchandise Marks Act, 1958 or the Trade Marks Act, 1999

(d) The Geographical Indications of Goods (Registration and Protection) Act, 1999

(e) The Designs Act, 2000

(f) The Semi-conductor Integrated Circus Layout – Design Act, 2000.

IPR may be seen as recognised monopoly while the competition law has been enacted to prohibit the monopoly. But in a holistic approach, innovation has always been considered as a catalyst in the development process. Innovation is a noble endeavour to accelerate growth in the economy. The synthesis of IPR and the Competition Law is a balancing task in the larger interest of the society.

In the International IP regime, the trans-national Corporations are the leading players. These Corporations of developed countries would benefit greatly from an international system with high standards of protection. Here the danger lies. They are very powerful Interest Group. The so called level playing field for this corporations may cause irreparable injury to the indigenous pharmaceutical, electronics and other sectors of the developing countries. The need of the hour is to enforce the competition law in its totality and to ensure a coordinated effort amongst the Regulators and the Professionals.

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Origin of Cost Accounting

Dr. N.N. Sengupta*

This brief will serve to indicate that cost accounting is not a newly developed offspring from its parent, the accounting process. But it rather has been going through its "growing pains" for many decades. In view of its long and interesting evolution, cost accounting now occupies such a prominent place in the business community that is opportune and highly desirable for its principles and concepts to be stated in tentative form. Or, to express it differently, cost accounting has now "grown up" sufficiently to warrant the serious attention.

It has generally been believed that cost accounting had its origin in the rise of the factory system in the Industrial Revolution. While it undoubtedly received a major impetus from that source, some of the practices and theories of today are much older. In fact, they date back to about fourteenth century when, as a result of the growth of Italian, English, Flemish and German commerce, industrial enterprises began to be established by various individuals and partnerships to engage in the manufacture of woolen cloth, books, coins and other lines. As several historians have pointed out, wherever capitalism began to show itself better accounting practices followed within a short time. Cost accounting, being concerned with those specialized aspects of general accounting which have to do with the recording and analysis of factory expenditures, was no exception to the preceding tendency. It has been suggested, however, that the first definite development in cost accounting took place in the time of Henry VII of England (1485-1509), when a large number of small woolen manufacturers, being resentful of the many guild restrictions, moved to the country villages from the cities, and established industrial communities, hoping to be able to sell their finished products through other channels than the organized guilds. Cost had not been so essential among the group as long as all their factory and selling activities were regulated by the highly monopolistic guilds; but, as many firms have since learned, when the small factory owners found themselves competing now not only against the guilds, but also among themselves, more accurate records of costs became imperative and almost prerequisite for success. Incentives such as these undoubtedly gave impetus to cost accounting in those years of the middle Ages.

** The contributor is Assistant Director, ICAI*

Know your English

Dr. Naveen K Mehta*

It is observed that Idioms and Phrases are often used incorrectly. So, let us understand the correct usage of Idioms and Phrases:

1. **By Fits and starts:-** irregularly.
   Dinesh is working on his maiden novel by fits and starts.
2. **Null and Void:-** something which has no legal force or is invalid.
   In India, the marriage of a child below sixteen years has been declared null and void by the court.
3. **Tooth and nail:-** with full force/violently.
   Bhanu Prakash fought the dacoits tooth and nail.
4. **To bury the hatchet:-** to stop fighting/to become friendly/to make peace. Uday and Ajay buried the hatchet and they are good friends now.
5. **To hold one's tongue:- to** keep silent.
   Kamla doesn't like Manoj's ideas, but she will hold her tongue.
6. **To make a pile:-** to make fortune.
   During the recession period Sandeep made a pile by working in a low profile organization.
7. **A man of word:-** one who keeps his/her promise.
   Ravi is a man of word.
8. **To burn the midnight oil:-** work/study/read far into the night.
   To become a successful CA professional, you have to burn the midnight oil.
9. **Once in a blue moon:-** very rarely/once in a very long time.
   Anuradha only goes out for Chinese food once in a blue moon although she enjoys it very much.
10. **Pink slip:-** termination notice from a job.
    Punit received his pink slip last week and he is now looking for a new job.
11. **Red-letter day:-** a day that is memorable because of some important event.
    It was a red-letter day for Rupa when she topped the merit list of CA Final examinations.
12. **Someone's head is in the clouds:-** a person is always having unrealistic ideas and thoughts.
    Lalit's head is in the clouds again as he is talking about winning the lottery.
13. **A Chip on Your Shoulder:-** being upset for something that happened in past.
    Raman lost his game this morning, and now he has a chip on his shoulder.

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What is Infrastructure

Dr. Mona Kansal*

Need for Infrastructure

Adequate infrastructure is a major prerequisite for economic growth and development both because it provides the basis for the production of goods and services and because it provides essential services directly to consumers.

Developing countries typically encounter serious energy, transport and other bottlenecks which prevent them from realizing their productive potential. Lack of port and airport capacity limits the expansion of international trade. Overloaded rail and road networks hinder the movement of goods and workers within a country. Lack of coverage of telecommunications networks impedes the flow of information throughout the economy. Power outages diminish manufacturing and services outputs.

Infrastructure inadequacies also contribute to low levels of human development. Lack of coverage and poor quality of public utility networks typically mean that populations have insufficient clean water supplies and sewerage, insufficient electricity to light and power their homes, insufficient transport to get them to work or allow them leisure travel, and no means of rapid communication with remote friends and family.

Definitions of Infrastructure

Despite its undisputed importance, the definitions of infrastructure are varied and subject to interpretation. As a practical matter, what is considered to be infrastructure depends heavily upon the context in which the term is used.

There are many aspects of infrastructure, for instance, transportation facilities like road network, ports, airports etc., communication infrastructure covering telecommunication network; information infrastructure; energy availability, etc. Though World Bank, 1994, details out some indicators of different aspects, a comprehensive indicator of infrastructure availability is not available.

General Definition

The term infrastructure in general refers to the basic physical systems of a country's or community's population, including roads, utilities, water, sewage, etc.

Definition by American Heritage Dictionary

The *American Heritage Dictionary,* defines the term "infrastructure" as "the basic facilities, services, and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines, and public institutions including schools, post offices, and prisons".

Economists' Perspective

According to economists, infrastructure projects can be categorised using one or more of the following dimensions: wide differences in economic returns *vis-a-vis* project returns; full user-pay-charges or subsidy-driven structures; federal, state or third tier subject; asset specificity; lumpiness of one-time investment, usually with a long gestation period; content infrastructure (for example, power generation) where competition is possible to some extent; carriage infrastructure (for example, roads and pipelines) which are typically natural monopolies; and, projects requiring large land acquisition and related resettlement and environmental issues.

Developed Countries Perspective

In developed countries, the definition has changed with time. Early definitions relate to the core areas

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of transportation, water supply, energy, waste, sanitation and so on. Later, other non-core areas like industrial parks, agriculture, communication et al tend to get added.

Indian Perspective

There are the following ***six*** official entities in India that attempt to define 'infrastructure' - statutorily or otherwise:

1. The Income Tax Department which defines infrastructure under section 80IA.
2. The Department of Economic Affairs in the Ministry of Finance – it has its version that relates to the viability gap funding (VGF) mechanism. It gives tax breaks and dishes out VGF.
3. The RBI - The RBI definition of infrastructure covers roads, highways, port, airport, inland waterway/port, water supply and sanitation, telecom services, industrial park or SEZ, power generation, transmission and distribution. Besides, public activities of similar nature would also be treated as infrastructure.
4. The Insurance Regulatory and Development Authority (IRDA) - It defines infrastructure as it seeks to deploy 15 per cent of the long-term funds available with insurance companies as its contribution towards alleviating the asset-liability mismatch inherent in this sector.
5. The groupings that emerge in outputs from the Planning Commission, and
6. Finally, the Prime Minister's Committee on Infrastructure - These have the responsibility to monitor the progress of this sector, evolving policy and configuring interventions, and therefore, have their own groupings and long lists for infrastructure.

In addition to these, elements from the private sector wake up from time to time, and demand that various projects in tourism, healthcare, education and real estate be declared officially as infrastructure in order to have more tax breaks, tax holidays and access to funding under the 'official' definition. And indeed, based on representations and prevailing wisdom, the list does get widened from time to time. However, there is a growing need and concern to have a single, scientific, unified list and definition of infrastructure in the country. The following seven reasons are advocated why a common definition of infrastructure is desirable in India :

- It would lead to focused thinking in organizing and classifying a sector that historically has not been as methodically organized as the manufacturing sector.
- Huge amounts of investment, particularly from the private sector (domestic and foreign), are expected to pour in — about $70 billion in the 11th Plan period as part of the overall requirement of $350 billion. It would help these investors to have one list of 'official' infrastructure projects so that the conditions surrounding investment decisions, whether relating to tax, VGF, ECBs or credit exposure norms, can be less fuzzy.
- The debate and confusion on whether social sector investments in healthcare, education, housing, tourism, agricultural cold-chains etc. are to be included in the definition of infrastructure can be settled once and for all.
- The irrationality of something appearing on one government list and not on another would be removed. Simultaneously, all state governments

can be persuaded to adopt this unified list, as most infra-investments are at the state level.

- Infrastructure watchers have long been clamoring that a statistic called the GCFI (Gross Capital Formation in Infrastructure as a percentage of the GDP) be quickly organised and disseminated as a key economic indicator of progress. A clear definition of infrastructure will bring clarity to this overdue statistic.
- The infrastructure sector spans three types of economic activity — asset creation, asset maintenance and asset-related services. A clear listing of which kind of activities are entertained by the government to be officially classified as infrastructure would indeed be useful.
- Investors in and financiers of infrastructure SPVs are a confused lot. Earlier, financiers got tax breaks as per Section 10(23-G). That has since been removed. Now there is the pain of pass-through benefits removed (or partially restored) *a la* the Budget 2007pronouncements on pass-through benefits for venture funds. A clear list would considerably help investor confidence.

Suggestive Definition

Using a combination of these perspectives, a possible unified and harmonized list of 'infrastucture' for a country can be structured across the five groups suggested below:

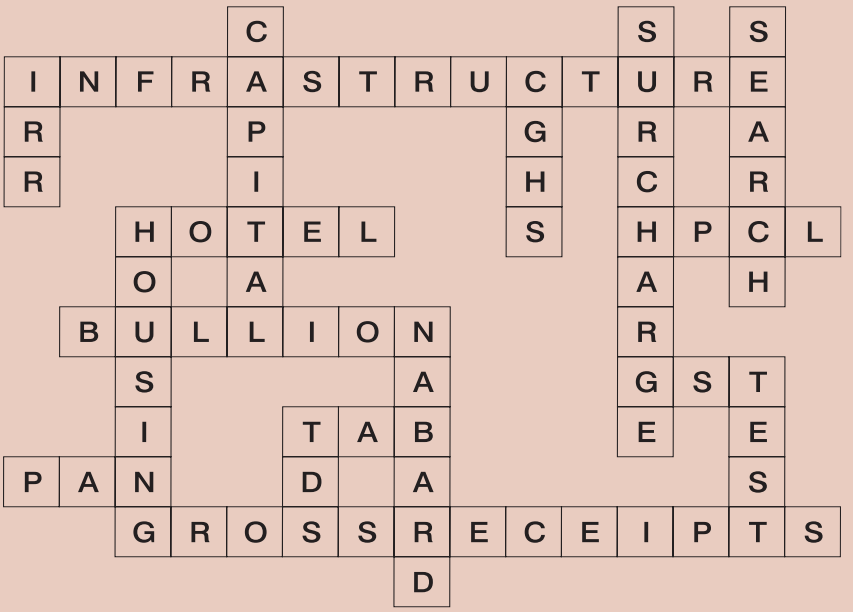
- **Group A: Rural Infrastructure:** Irrigation, rural connectivity (roads, power, IT), cold chains and markets, drinking water.
- **Group B: Core Infrastructure:** Transportation (roads, railways, airports, sea ports, inland waterways); energy (generation, transmission, distribution).
- **Group C: Urban Infrastructure:** Water, sanitation, sewerage, LRT/MRT/MTS, city-energy distribution, terminals and logistics parks.
- **Group D: Land-Intensive:** SEZs, industrial parks, new townships, industrial cluster development, IT parks.
- **Group E: Social Infrastructure:** Healthcare, education, leisure and entertainment, retail, tourism, housing, exhibition and convention centres, hospitality.

Such an initial classification, duly modified after debate and discussion, can lead to targeted policy pronouncements as well as a long listing of projects/services/enablers under each group that could be the beneficiaries of governmental support and largesse. Ideally, this task of preparing a harmonized universal classification should be done by some central unified agency say, e.g. the finance ministry of the country. It could equally well be done by the Planning Commission sort of agency.

CROSSWORD

April-2010

solution



Investment Appraisal at Somgeets Pvt. Ltd.

R.K.Srivastava*

The case deals with Investment Appraisal for a new business venture. The case is set in a small manufacturing and services company located at Mumbai. Students may assume for analysis purposes that profits made on sale of land shall be included along with regular income.

On April 16th 1853, a locomotive pulling 14 carriages and 400 people left what was then Bombay to a 21-gun salute and trundled to Thane, 34 km (21 miles) away. This particular journey marked the beginning of the Indian Railways. The network grew fast. Some of it was built by the British Raj, some by the princely states, such as Bikaner and Jodhpur, which retained their notional independence. Many of the network's main trunk routes were laid by private companies under schemes that would now be described as "build-operate-transfer"/"build-operate-own-transfer"(BOT/BOOT).

It was during those times that Somgeets Pvt Ltd (SPL) was incorporated with specific objective to manufacture and lay 'Tracks'. After independence the product mix gradually diversified from only 'Tracks' to 'Tracks', 'Wheels', Doors and 'Lock Handles' (LH). Supplies to parties other than the Railways were substantial and growing. The company also expanded into services and gradually but steadily increased its presence into Railway Catering. By 2000, manufacturing accounted for only 30% of sales. However, SPL was still known for its high quality manufacturing and reliable customer service.

In 2000, the company bid on an Indian Railway contract to supply 1Lakh 'Lock Handle's' a year for five years. SPL bid Rs 25 per 'Lock Handle' fixed for five years. Somesh, president of the company, wanted to grow his manufacturing base and felt sure that the contract was a good way to restart a relationship with the government that had been dormant for the last many years.

The Railway order would allow SPL to bring about 30 steady jobs to the sea coast area and reactivate a factory which had been shut down in 1981 when SPL lost a contract to supply 'Wheels' to the Northern Railway division. The factory was located on a 5 acre land on a sea shore site near the Taj Hotel.

The Plant was fully depreciated on SPL's books; except for the Rs 10,000 cost of the land purchased from its owner who was migrating to the then newly founded Pakistan. The company had turned down Rs 9 Lakh offer for the land in 1995 from a property dealer. Somesh had no idea about the price of land today but he did not bother as the land was not for sale, anyways.

If the bid of SPL was to be accepted by the Indian Railways, SPL would need to invest substantially in infrastructure. In this regard, Somesh had projected Rs 5 Lakh expenditure to renovate and refurbish the factory building and grounds. He also estimated an expenditure of Rs 8 Lakhs to buy equipment which would be required to manufacture 'Lock Handles' and of Rs 4.25 Lakhs for working capital which would be released at the end of the project. He planned to borrow 50% of the total requirement from banks and to use the balance from SPLs cash reserves.. A 10 year loan at 10% interest was readily available for the said purpose. The life of the equipment was estimated as 5 years whereas the building was expected to survive the next 10 years. In normal circumstances, the investment would last much longer but Somesh wanted to be conservative in his financial projections. If the five-year contract was not to be renewed, Somesh estimated zero salvage value for all infrastructures (building and equipment). 'Lock Handles' were specifically meant for the Rail Wagons and had not much demand elsewhere.

*The contributor is a Cost Accountant and Corporate Trainer

The first year income statement for the project was estimated as follows:

Sales	Rs 25,00,000(Rs 25 per LH)
Factory Cost	
HS Steel	Rs 10,00,000(Rs 10 per LH)
Direct labour	Rs 4,00,000 (Rs 4 per LH)
Other Material	Rs 1,00,000
Indirect Cost	Rs 2,50,000
#Depreciation	Rs 2,10,000
Factory Profit	Rs 5,40,000

#The Company would use straight line method of depreciation for tax purposes.

Shipping expenses were to be borne by the Railways. No incremental selling and administrative expenses were foreseen. Somesh estimated Taxes to be 35% of profit. According to Somesh's estimate his cash costs would probably grow 4% each year because of inflation.

The Railway procurement officer with whom Somesh was dealing with expressed serious interest over the offer mainly because of the fixed price per unit for 5 years as proposed by SPL. According to him the price quoted was very competitive especially because of zero escalation as projected in the bid. He asked Somesh to submit his 5- year financial forecast. Somesh was unsure of what was needed of him and so he approached his Finance Director, Geetika, for necessary advice. She suggested that SPL needs to prepare cash forecast for the proposal and then compute the "IRR","NPV" and "Payback" for the project. According to Geetika, 15% cost of capital was a reasonable estimate and the company would continue as a going concern in case such returns were possible.

Geetika had special concern for the land value to be used for the project. She felt that the land cost should be included somehow in the analysis but was not sure how. Market estimate for the land at the sea coast was Rs 15 Lakhs but a comparable property in an industrial suburb nearby had sold recently for only Rs 3 Lakhs.

Questions

1. You are required to prepare a cash flow forecast for the abovementioned project.
2. Compute the NPV, IRR and Payback.
3. Do you think that the proposal is a good deal for the Railways?
4. Is it a good deal for SPL?

How to prepare an outstanding Curriculum Vitae

CA.Rammohan Bhave*

In today's highly competitive world, getting into a job of one's choice based on one's qualification and experience is an uphill task. This task can be attained by preparing an appropriate Curriculum Vitae (CV). Remember; this is your first impression, as it is the first document that reaches to your prospective employer. Be careful and do not underestimate the importance of a good CV.

1. Title – Bio-data. One makes errors in spellings of Curriculum Vitae. Writing title itself has again gone out of fashion.
2. Sequence – 1. Name, 2 Mobile Number, 3. Email, 4. Education, 5. I.T. Literacy and extra courses, 6. Experience, 7. Achievements, 8. Hobbies, 9. Personal Details
3. End – Left with Date and right with name in bracket to sign above it. With I.T. Revolution writing place has become outdated concept.
4. No. of pages –A professional fresher's CV should not be more than one and half to two pages Subsequently, add half a page for each 2 years (or part of it) experience.

Don'ts : The following points need not be given:

- Father's and Mother's names – these are outdated and irrelevant from professional perspective
- Last sentence "I confirm that above information is true and correct etc etc" not at all needed. One is not writing a legal statement.
- Decimal points in marks – not needed
- Outdated achievements e.g. prize in essay competition during 3rd standard
- Gender & nationality (required for overseas jobs only)
- Native place, Religion and caste, Marital status
- Languages known (unless one knows any foreign language other than English, of course)
- Present Cost to the Company (CTC) & expected CTC
- Passport number and validity date
- DD, MM, YYYY not needed. Only MM, YYYY is enough. Do not write 13th Oct 2006 to 27th Dec 2007 mention "Oct 2006 to Dec 2007"
- Covering letter – with emailed CVs, these have gone out of fashion. If something very specific to be highlighted which is your special Unique Selling Point (USP), then covering letter may be useful to serve some purpose.
- Words like "JUST" showing casualness, "no" "not" showing negativity.
- Pursuing a course – does not add value, unless at least some preliminary or entry or first level or first group is completed.
- Strengths – do not write. But rather state them indirectly by examples of experience or achievements in CV.
- Weaknesses – Interviewer will find any way some of them. But you should be able to show cool, humble and improving mode likes for same.
- References – write them only if very strong. Or else leave them for giving in interview when asked for or while filling company's standard form
- Height, Weight and Chest unless specifically asked for.
- Colour of eyes, hair and skin
- Last but not the least,
  a. drop everything on which you cannot speak on,
  b. drop everything on which speaking in interview will go against you,

* *The author is a Strategy & IFRS consultant*

c. drop everything, speaking on which will appear a time-waste for interviewer.

Which should be focused for contents

A. Experience

B. Achievements

C. Education - Degree and above

How to write experience?

- First make or convert all points into bullet points, with sub-titles. (it means – no full sentences, starts with verbs like completed, e.g. Cost Audit - done for sugar company etc)
- Put yourself in interviewers' shoes and think.
- Rank all points in order of importance from interviewers' view point

How to write achievements?

- Write 2-4 achievements
- If there are no academic achievements, write two experience based achievements
- Achievements to some extent should be highlighted in such a way, so as to arouse curiosity, so that interviewer asks questions on them, and then candidate can score on them. After all, interview from candidate's perspective should be an art of driving interviewer towards his strengths. For this, bio-data is vital tool.

How to write hobbies?

Hobbies can be classified in 4 types:

- Having professional synergy- like surfing internet, reading professional books, magazines, journals, chess, traveling (shows exposure).
- Physical/mental strength-peace related - e.g. squash, tennis, badminton, cricket, football, swim, trekking and adventures.
- Social nature hobbies – NGO participation, Rotary, Lions, CRY, Blood donations, Animal anti-cruelty, handicapped children help etc
- Some examples of hobbies not worth stating - reading comics, watching movies.

Maximum hobbies to be stated should be 3 to 4.

Some more tips

- Residential Address can go at the end as a part of personal details. Personal details include postal address, age, birth-date, landline number, family background (optional)
- Mention % only if they are good. If not, put marks in subjects where they are best.
- Stating achievements is a must
- Put table for education, if it is on fast track. If it is on slow track then put descriptive and bullet points
- At least put blue or brown/red colour for few words to highlight and be best at that points
- Better to write computer skills than computer proficiency - (computer is such a vast field, nobody can be really proficient. so better be humble) or say I.T. literacy or I.T. Skills.
- Do not write tally 5.4 - you must know latest version also. So write just tally, but be conversant with latest version by studying from tally website
- Do not make box and table for whole CV
- Have simple name based email id. Don't use collegian id for professional purposes. e.g. manisha_cutiepie@yahoo.com or coolme_deepak@rediffmail.com. Do not use such ids for professional purpose.
- Long career objectives with nothing special (and can be copied by anybody is meaningless to put) Better do not put any career objective.
- If at all put career objective, from which your specialities and USP or differentiators can be identified. Otherwise, DO NOT PUT.
- Any sentence anywhere in CV more than 10 words, just break it or shorten it.
- For a CA CV, mention of "key areas" stated as "Accounting, Auditing" not needed. It is too generic.
- Should you mention college name or university name - mention only one of them, which have higher brand value.
- The date at the bottom of CV should always be latest one.
- 16. Whether family background should be mentioned - generally no. Exceptionally "yes" if it is educationally or industrial/social position-wise is very strong.
- Put cell no. as +91 9989056789 & landline no as +91 22 24041129. Prefix of +91 shows your understanding of global nature, so put it that way.
- "Passed Senior Secondary Examination (Commerce with Maths) from C.B.S.E (2001)." Such Sentences make NO meaning. It should be part of education table. Even if it is bullet point, make it, as "S.S.C - CBSE – 2001". The remaining words are redundant.
- Stated in CV - "won many prizes in public speaking" as achievement. When interviewer asked question which subject you spoke on and

in which year. It was in school in Class 8 on a subject of about water drainage system in Amaravati. Suggestion - do not write such achievements. Better, drop them. Anything, which is, more than 5-7 years old is almost irrelevant nowadays. Of course, this does not apply to unique differentiators.

- If CV is very long, then
  a. Convert all sentences into bullet points.
  b. use command find and replace and find all places where "and" word is used and replace it by "&"
  c. check all words which make no meaning and drop
- The key portion of CV is highlights in exams and achievements in work experience. In case of freshers, it is articleship of CA
- Highlights in exams are represented by rank like all India — topper in city, college, branch, etc, or cleared in first attempt in case of professional exams, or high GPA in MBA or more than 55% marks in professional exams. If such good ranks or good percentages are not there, you may, look for subject marks, which are maximum - say about 80 or 70 or 65 or at least 60. State those with subject name.
- USP – Differentiators must be noticeable - show your CV to friends or relatives or mentors - to know whether these highlights are immediately noticeable or not. Bigger or different font size or colour will achieve that purpose.
- Avoid informal greetings like "Hi" in the email sent enclosing bio data.
- Computer related tips
  a. Email body with attached CV in word file is the normal way (no power point, excel sheet or pdf)
  b. Arial or Times New Roman with font size 10 to 12.
- Ensure following
  a. Making CV short
  b. Omitting useless and meaningless words
  c. Avoid anything, which leads to finding negative points by interviewer.

Accounting

Additional Disclosures by Banks in Notes to accounts

The RBI has taken several steps from time to time to enhance the transparency in the operations of banks by stipulating comprehensive disclosures in tune with international best practices. RBI has prescribed the following additional disclosures in the ' Notes to accounts' in the banks' balance sheets, from the year ending March, 2010:

(i) Concentration of Deposits, Advanced, Exposures and NPAs;

(ii) Sector-wise NPAs;

(iii) Movement of NPAs;

(iv) Overseas assets, NPAs and revenue;

(v) Off-balnce sheet SPVs sponsored by banks.

(Notified by RBI on 15th March, 2010, Source: www.rbi.org.in)

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation

With reference to para 4.2.15(iv) of Master Circular DBOD. No. BP.BC. 17/21.04.048/2008-09 dated July 1, 2009 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances (here forth referred to as Master Circular on IRAC norms), a grace period of two years for Infrastructure Projects, and six months for Industrial projects, is available for commencement of commercial operations after the original date of completion of the project, for the purpose of retaining the standard asset classification, provided the account **is serviced regularly**.

It has been decided to modify the asset classification norms for project loans before commencement of commercial operations as per the guidelines given in paragraph 4. These guidelines will, however, not be applicable to restructuring of advances covered under the paragraph 14.1 of the Master Circular on IRAC Norms (Advances classified as Commercial Real Estate exposures; Advances classified as Capital Market exposure; and Consumer and Personal Advances) which will continue to be dealt with in terms of the extant provisions i.e paragraph 14.1 of the aforesaid circular.

For this purpose, all project loans have been divided into the following two categories:

i. Project Loans for infrastructure sector

ii. Project Loans for non-infrastructure sector

'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Banks must fix a **Date of Commencement of Commercial Operations (DCCO)** for all project loans at the time of sanction of the loan/financial closure (in the case of multiple banking or consortium arrangements).

4. Revised Guidelines on Asset Classification of Projects under Implementation

4.1 Project Loans for Infrastructure Sector

4.1.1 A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.1.3 to 4.1.5** below.

4.1.2 A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.1.3 to 4.1.5** below.

4.1.3 If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original date of commencement of commercial operations (DCCO), in accordance with the provisions of Part B of the Master Circular dated July 1, 2009 on IRAC norms, it can be retained as a standard asset if the fresh DCCO is fixed within the **following limits**, and further provided the account continues to be serviced as per the restructured terms.

a. Infrastructure Projects involving court cases

Up to another 2 years (beyond the existing extended period of 2 years i.e total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

b. Infrastructure Projects delayed for other reasons beyond the control of promoters

Up to another 1 year (beyond the existing extended period of 2 years i.e. total extension of 3 years), in other than court cases.

4.1.4 It is re-iterated that the dispensation in para 4.1.3 is subject to adherence to the provisions regarding restructuring of accounts as contained in

the Master Circular on IRAC norms which would *inter alia* require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be:

a. In cases where there is moratorium for payment of interest, banks **should not** book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.
b. Banks should maintain provisions on such accounts as long as these are classified as standard assets as under:

Until two years from the original DCCO	0.40%
During the third and the fourth years after the original DCCO.	1.00%

4.1.5 For the purpose of these guidelines, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

4.2 Project Loans for Non-Infrastructure Sector

4.2.1 A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.2.3 to 4.2.5** below.

4.2.2. A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.2.3 to 4.2.4** below.

4.2.3 In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of six months from the date of completion as determined at the time of financial closure, banks can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts in accordance with the provisions contained in Master Circular on IRAC norms, provided the fresh DCCO does not extend beyond a period of twelve months from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of six months from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be:

a. In cases where there is moratorium for payment of interest, banks **should not** book income on accrual basis beyond six months from the original DCCO, considering the high risk involved in such restructured accounts.
b. Banks should maintain provisions on such accounts as long as these are classified as standard assets as under:

Until the first six months from the original DCCO	0.40%
During the next six months	1.00%

4.2.4 For this purpose, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

4.3 Other Issues

4.3.1 All other aspects of restructuring of project loans before commencement of commercial operations would be governed by the provisions of Part B of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances. Restructuring of project loans after commencement of commercial operations will also be governed by these instructions.

4.3.2 Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if:

i. The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.
ii. The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.
iii. The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCP.
iv. On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

5. These guidelines would apply to those cases where the modification to terms of existing loans, as indicated above, are approved by banks from the date of this circular.

(Source: RBI Notification no. RBI 2009-10/ 375, DBOD.No.BP.BC. 85/21.04.048/2009-10 dated March 31, 2010)

Note: These notifications are not applicable for the PE-II/PCC/IPCC students appearing in May, 2010 examination.

Cost Accounting

Lean Accounting : A new tool for Cost Control

Lean Accounting has developed in recent times to provide the accounting, control, and measurement methods supporting lean manufacturing. Lean manufacturing is a production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful. This tool is applicable to healthcare, construction, insurance, banking, education, government, and other industries.

The objective is to eliminate waste, free up capacity, speed up the process, eliminate errors & defects, and make the process clear and understandable.

There are two main thrusts for Lean Accounting. The first is the application of lean methods to the company's accounting, control, and measurement processes. The second thrust of Lean Accounting is to fundamentally change the accounting, control, and measurement processes so they motivate lean change & improvement, provide information that is suitable for control and decision-making.

Lean Accounting does not require the traditional management accounting methods like standard costing, variance reporting, cost-plus pricing, complex transactional control systems, and untimely & confusing financial reports. These are replaced by:

- lean-focused performance measurements
- simple summary direct costing of the value streams
- radical simplification and elimination of transactional control systems by eliminating the need for them
- eliminating traditional budgeting through monthly sales, operations, and financial planning processes (SOFP)
- value-based pricing
- correct understanding of the financial impact of lean change e.t.c

Auditing

Revised / new Standards on Auditing (SAs) under series of 700 - 799 deals with Audit Conclusions and Reporting issued under the Clarity Project, effective for audits of financial statements for periods beginning on or after April 1, 2011 are.

S.No.	Revised / New SAs *	Title of Standard on Auditing
1	SA 700	Forming an Opinion and Reporting on Financial Statements
2	SA 705	Modifications to the Opinion in the Independent Auditor's Report
3	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
4	SA 710	Comparative Information—Corresponding Figures and Comparative Financial Statements

***** Students may note that abovementioned SAs are not applicable for May, 2010 examinations. Here we are giving an introduction of SA 710.

Standard on Auditing (SA) 710 (Revised), "Comparative Information—Corresponding Figures and Comparative Financial Statements"

SA 710 is a revised version of the erstwhile Auditing and Assurance Standard (AAS) 25, "Comparatives" issued by the Institute in 2002. This SA should be read in the context of the "Preface to the Standards of Quality Control, Auditing, Review, Other Assurance and Related Services" which sets out the authority of SAs and SA 200(Revised) "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing". This SA defines the terms 'Corresponding figures', 'Comparative information' and 'Comparative financial statements'.

SA 710 (Revised), "Comparative Information—Corresponding Figures and Comparative Financial Statements" deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statement of the prior period have been audited by a predecessor auditor or were not audited, the requirement and guidance in SA 510 (Revised) "Initial Audit Engagements—Opening Balances" regarding opening balances so apply.

It also deals with the requirements and application of the aspects relating to audit procedures and audit reporting relating to Corresponding Figures and Comparative Financial Statements.

For details visit:

http://www.icai.org/post.html?post_id=450&c_id=141

Direct Tax

Notifications issued by the Central Board of Direct Taxes during the period 15.03.2010 to 15.04.2010

1. Notification No 23/2010 dated 8-04-2010

The Finance (No.2) Act, 2009 had inserted clause (vii) in section 56(2) w.e.f. 1st October 2009 to bring within its scope, the value of any property received without consideration or for inadequate consideration.

The said clause provides that, if any property, other than immovable property, is received without consideration, the aggregate fair market value of such property on the date of receipt would be taxed as the income of the recipient if it exceeds Rs.50, 000. In case the property, other than immovable property, is received for inadequate consideration, and the difference between the aggregate fair market value and such consideration exceeds Rs.50, 000, such difference would be taxed as the income of the recipient. "Fair market value" of a property, other than an immovable property, means the value determined in accordance with the method as may be prescribed.

Accordingly, the Central Board of Direct Taxes has, vide this notification, made rules for determination of fair market value of the property, other than immovable property, which would be effective from 1st October 2009.

2. Notification No. 24 /2010 dated 08-04-2010

Section 2(48) defining zero coupon bonds requires that such bonds should be notified by the Central Government. Accordingly, the Central Government has, vide this notification, specified the ten year Deep Discount Bond (Zero Coupon Bond) of Rural Electrification Corporation Limited (REC), to be issued by 31st March 2011, as a zero coupon bond for the purpose of section 2(48).

The complete text of the above notifications can be downloaded from

http://law.incometaxindia.gov.in/DIT/Notifications.aspx.

Indirect Tax Law

Area	Notification No.	Amendment	Effect of amendment
Service tax	20/2010 ST dated 30.03.2010	Has amended Notification No. 7/2010 dated 27.02.2010	Withdrawal of exemption from service tax on service provided in relation to 'transport by rail' shall now be effective from 1st July, 2010 instead of 1st April, 2010.
	21/2010 ST dated 30.03.2010	Has amended Notification No. 8/2010 dated 27.02.2010	Restoration of exemption provided to transport of specified goods by rail shall now be effective from 1st July, 2010 instead of 1st April, 2010.
	22/2010 ST dated 30.03.2010	Has amended Notification No. 9/2010 dated 27.02.2010	Abatement of 70% of the gross value of the freight charged on goods (other than exempted goods), in case of transportation of goods by rail, shall now be effective from 1st July, 2010 instead of 1st April, 2010.

Area	Circular No.	Issue	Clarification
Customs	06/2010-Cus dated 19.03.2010	Whether the rebate under rule 18 of the Central Excise Rules, 2002 read with Notification 19/2004- CE(NT) dated 06.09.2004 is admissible when the goods are supplied from units in Domestic Tariff Area (DTA) to Special Economic Zone (SEZ)?	The circular affirmed that rebate under rule 18 of the Central Excise Rules, 2002 is admissible for supplies made from DTA to SEZ even though rule 18 does not refer to such supplies in clear terms. Further, section 26 of the Special Economic Zone Act, 2005 allows theclearance of duty free goods for authorized operations in the SEZ and the procedure laid down under rule 18 of the Central Excise Rules, 2002 gives effect to the said provision of the SEZ Act.

Economy

Consolidated Foreign Direct Investment Policy

It is the policy of the Government of India to attract and promote productive Foreign Direct Investment (FDI) from non-residents in activities which significantly contribute to industrialization and socio-economic development. The Government of India has recently issued a circular on Consolidated FDI Policy. This circular consolidates into one document all the prior policies/regulations on FDI which are contained in FEMA, 1999, RBI Regulations under FEMA, 1999 and Press Notes/Press Releases/ Clarifications issued by DIPP and reflects the current 'policy framework' on FDI.

FDI is **prohibited** in the following activities/sectors (a) Retail Trading (except single brand product retailing) (b) Atomic Energy (c) Lottery Business including Government /private lottery, online lotteries,etc. (d) Gambling and Betting including casinos etc. (e) Business of chit fund (f) Nidhi company (g) Trading in Transferable Development Rights (TDRs) (h) Real Estate Business or Construction of Farm Houses (i) Activities / sectors not opened to private sector investment.

Investments can be made by non-residents through two routes; the Automatic Route and the Government Route. Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the RBI or Government of India for the investment. Under the Government Route, prior approval of the Government of India through Foreign Investment Promotion Board (FIPB) is required.

Sectors in which 100% Foreign Investment is allowed under Automatic Route

100% FDI is allowed under automatic route in floriculture, horticulture, development of seeds, animal husbandry, pisciculture, aquaculture and cultivation of vegetables & mushrooms, mining and exploration of metal and non-metal ores including diamond, gold, silver and precious ores, mining of coal & lignite, distillation & brewing of alcohol, processing of coffee and rubber, drugs and pharmaceuticals, hazardous chemicals, industrial explosives, generation, transmission, distribution and trading of power, film, airports under Greenfield projects, data processing, software development, computer consultancy services, software supply services, business and management consultancy services, construction and maintenance of roads, rails, bridges, tunnels, ropeways, waterways, highways, water ways, port and harbours, Mass Rapid Transport System, township, housing, build up infrastructure, health and medical services, hotels and tourism, industrial park, non-banking finance company, petroleum and natural gas, wholesale trading, investment by a venture capital company in venture capital fund.

Sectors in which 100% Foreign Direct Investment is allowed under Government Route

100% FDI is allowed under government route in tea plantation, mining and mineral separation of titanium, cigar and cigarette manufacturing, courier and e-commerce activities.

Sectors in which 74% Foreign Direct Investment is allowed under Automatic Route

In the existing Airport projects upto 74% FDI is allowed under automatic route but beyond 74% FDI it is allowed under government route. FDI limit in Private Sector Banks is 74 % including investment by FIIs. In satellite projects also 74% FDI is allowed. In telecom, 49% FDI is allowed under automatic route and beyond 49% but upto 74% FDI is allowed under government route.

Sectors in which 49% Foreign Investment is allowed under Government Route

49% FI is allowed under government route in cable network, direct to home, commodity exchange, credit information company and infrastructure company in the security market.

Sector in which 26% Foreign Direct Investment is allowed under Automatic Route

26% FDI is allowed under automatic route in insurance.

Sectors in which 26% Foreign Investment is allowed under Government Route

26% FDI is allowed under government route in defence industry. In publishing of newspaper and periodicals dealing with news and current affairs total FI allowed is 26%.

Sectors in which 20% Foreign Investment is allowed under Government Route

FDI and Portfolio Investment in nationalized banks are subject to overall statutory limit of 20% under Government route. In FM radio also 20% FI is allowed through government route.

Adherence to Guidelines/Orders and Consequences of Violation

FDI is a capital account transaction and thus any violation of FDI regulations are covered by the penal provisions of the FEMA. Reserve Bank of India administers the FEMA and Directorate of Enforcement under the Ministry of Finance is the authority for the enforcement of FEMA. The Directorate takes up investigation in any contravention of FEMA.

Announcement

Crash Course- Common Proficiency Test (CPT)

The Board of Studies is organising Special Teleconferencing lectures (**Crash Course**) for CPT students on Gyandarshan channel –II in May 2010.

Programme Schedule of the same is hosted on the website of the institute www.icai.org.

Students are encouraged to raise their queries during studio timing at toll free no **1800-11-2345** or can e-mail us at **bosgyandarshan@icai.org.** Live Telecast can also be viewed on www.ignou.ac.in (First load VLC from www.videolan.org & click as per instructions, open www.ignou.ac.in & click Education Broadcast & then click Broadcast channel & then select gyandarshan II/edusat & click to view.

Business and Corporate Law

Payment of Gratuity Act, 1972 (Business Laws, Ethics & Communication, IPCC/PCC)

The Payment of Gratuity (Amendment) Act, 2009 has amended **section 2 and section 13 of the** Payment of Gratuity Act, 1972 (hereinafter referred to as the principal Act). It has a retrospective effect from the 3rd day of April, 1997. The amendments are as follows:

Amendment in Section 2 - In clause (e) of the section 2 of the principal Act, the following clause shall be substituted, namely:—

'(*e*) "employee" means any person (other than an apprentice) who is employed for wages, whether the terms of such employment are express or implied, in any kind of work, manual or otherwise, in or in connection with the work of a factory, mine, oilfield, plantation, port, railway company, shop or other establishment to which this Act applies, but does not include any such person who holds a post under the Central Government or a State Government and is governed by any other Act or by any rules providing for payment of gratuity;'.

Insertion of Section 13 A - After section 13 of the principal Act, the following section shall be inserted, namely:—

"13A. Notwithstanding anything contained in any judgment, decree or order of any court, for the period commencing on and from the 3rd day of April, 1997 and ending on the day on which the Payment of Gratuity (Amendment) Act, 2009, receives the assent of the President, the gratuity shall be payable to an employee in pursuance of the notification of the Government of India in the Ministry of Labour and Employment *vide* number S.O. 1080, dated the 3rd day of April, 1997 and the said notification shall be valid and shall be deemed always to have been valid as if the Payment of Gratuity (Amendment) Act, 2009 had been in force at all material times and the gratuity shall be payable accordingly:

Provided that nothing contained in this section shall extend, or be construed to extend, to affect any person with any punishment or penalty whatsoever by reason of the non-payment by him of the gratuity during the period specified in this section which shall become due in pursuance of the said notification.".

SEBI Act, 1992 (Corporate and Allied Laws, Paper 4, Final)

In exercise of the powers conferred by Section 30 of the Securities and Exchange Board of India Act, 1992, the board has amended SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2009 and these regulations may be called the SEBI (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2010. For annexure refer to www.sebi.gov.in

Finance

New Monetary Policy and its Implications

The Reserve Bank of India (RBI) has announced the new monetary policy for the year 2010 – 2011 on April 20,2010. The main objectives of the policy are price stability and growth. RBI also keeps in view the considerations of exchange rate stability and financial stability in pursuing the basic objectives.

Following are some of the measures undertaken in the policy:

Measures Impacting the Overall Economy

1. Repo and Reverse repo rates increased by 25 basis points each to 5.25 percent and 3.75 percent respectively with immediate effect.
2. Cash reserve ratio (CRR) raised by 25 basis points to 6 percent with effect from 24th April, 2010. Cash reserve ratio hike to absorb Rs. 125 billion excess cash.
3. Wholesale price index (WPI) inflation seen at 5.5 percent by March, 2011. The government plans to contain inflation at 4 percent.
4. GDP growth for FY10 may settle at 7.2 percent to 7.5 percent.
5. FY11 real GDP may grow by 8 percent.

The expected outcomes of the above measures would be that Inflation will be contained and inflationary expectations will be anchored; recovery process will be sustained; Government borrowing requirements and the private credit demand will be met and Policy instruments will be further aligned in a manner consistent with the evolving state of the economy.

Measures Impacting Debt and Foreign Exchange Market

1. Exchange-traded currency options allowed in USD/INR.
2. Banks' investment norms eased for non-SLR unlisted bonds.
3. RBI-SEBI panel to finalise details on new interest rate futures.
4. Interest rate futures to be allowed on 91-day Treasury bills, 2- year and 5-year notional coupon bearing securities.
5. Fixed Income Money Market and Derivatives Association of India (FIMMDA) working on reporting platform for repo in corporate bonds.
6. Rules on foreign exchange derivatives to be finalised by end of June.
7. Draft rule on Credit default swaps (CDS) likely by the end of July.
8. New rules on issuance of Non-convertible debentures (NCDs) of maturity less than one year to be framed by the end of June.
9. Banks base rate-lending system to be effective from 1st July, 2010.
10. Banks investment norms in infrastructure bonds to be eased.
11. Infrastructure bonds of over 7 years can be held in held-to-maturity category.

Measures Impacting Banks and Non Banking Financial Institutions

1. Banks to shift to International Financial Reporting Standards (IFRS) on 1st April, 2013. Some NBFCs, urban co-operatives allowed a grace period.
2. 10 Indian banks part of Basel quantitative impact study.
3. Revised risk-based banks capital norms likely by the end of year 2010 and implementation by 2012.
4. Introduction of reporting platform for all secondary market transactions in Commercial papers (CPs) and Certificates of deposits (CDs).
5. Banks need escrow and legal pacts for lower infrastructure provisioning. Sub-standard infra loans need 15 percent provisioning.
6. Banks can treat road annuities as tangible securities.
7. Freedom given to banks on conversion of deposits.
8. Working group on bank holding company structure to be formed. The group will comprise of IRDA, SEBI and IBA.
9. New bank licensing concept paper likely by July end.
10. Concept paper on Foreign banks presence to consider mode of operation likely by September.
11. Need to regulate holding companies. Holding companies with Rs. 1 billion asset must register with RBI. Rule for registration by April end.
12. Rule on foreign, private banks compensation package by June end.
13. Rules for asset reconstruction companies (ARCs) eased. ARCs allowed to realise assets in 8 years and rules for management takeover likely by 30th April, 2010.
14. New Basel-II evaluation process to be enforced in FY11.
15. Banks FY11 deposit growth seen at 18 percent.
16. Banks FY11 non-food credit growth seen at 20 percent.
17. Bank rate retained at 6 percent.

(Source: http://rbi.org.in)

Information Technology

Cloud Computing

Cloud Computing is the latest buzzword nowadays in Information Technology. In simple terms it is a way to increase capacity or add capabilities on the fly without investing in new infrastructure, training new personnel or licensing new software. The name cloud computing was inspired by the cloud symbol that is often used to represent the Internet in flowcharts and diagrams.

In general term, Cloud computing refers to anything that involves delivering hosted services over the Internet. A cloud service has three distinct characteristics that differentiate it from traditional hosting. It is sold on demand, typically by the minute or the hour; it is elastic — a user can have as much or as little of a service as they want at any given time; and the service is fully managed by the provider (the consumer needs nothing but a personal computer and Internet access). Significant innovations in virtualization and distributed computing, as well as improved access to high-speed have accelerated interest in cloud computing.

A cloud can be private or public. A public cloud sells services to anyone on the Internet. (Currently, Amazon Web Services is the largest public cloud provider.) A private cloud is a proprietary network or a data center that supplies hosted services to a limited number of people. When a service provider uses public cloud resources to create their private cloud, the result is called a virtual private cloud. Private or public, the goal of cloud computing is to provide easy, scalable access to computing resources and IT services.

These services are broadly divided into three categories:

(i) Infrastructure-as-a-Service (IaaS),

(ii) Platform-as-a-Service (PaaS) and

(iii) Software-as-a-Service (SaaS).

Each of these is described briefly below:

Infrastructure-as-a-Service : It provides virtual server instances with unique IP addresses and blocks of storage on demand. Customers use the provider's application program interface (API) to start, stop, access and configure their virtual servers and storage. In the enterprise, cloud computing allows a company to pay for only as much capacity as is needed, and bring more online as soon as required. Because this pay-for-what-you-use model resembles the way electricity, fuel and water are consumed, it's sometimes referred to as utility computing.

Platform-as-a-service: It is defined as a set of software and product development tools hosted on the provider's infrastructure. Developers create applications on the provider's platform over the Internet. PaaS providers may use APIs, website portals or gateway software installed on the customer's computer. Force.com, (an outgrowth of Salesforce.com) and GoogleApps are examples of PaaS. It may be noted that currently, there are no standards for interoperability or data portability in the cloud. Some providers will not allow software created by their customers to be moved off the provider's platform.

Software-as-a-service : In this cloud model, the vendor supplies the hardware infrastructure, the software product and interacts with the user through a front-end portal. SaaS is a very broad market. Services can be anything from Web-based email to inventory control and database processing. Because the service provider hosts both the application and the data, the end user is free to use the service from anywhere.

Cloud Computing offers many benefits as stated below over traditional IT systems:

- It is possible to manage the vast unstructured data and unpredictable growth in underlying IT infrastructure.
- Many SMEs are growing their businesses with limited investment in time, expertise and resources by drawing upon Cloud Computing flexibility.
- Users can avoid capital expenditure on hardware, software, and services since they pay a provider only for what they use.
- Consumption is usually billed on a utility (resources consumed, like electricity) or subscription (time-based, like a newspaper) basis with little or no upfront cost.
- Low barriers to entry
- Shared infrastructure and costs
- Low management overheads
- Immediate access to a broad range of applications
- Users can terminate the contract at any time (thereby avoiding return on investment risk and uncertainty)
- Services are often covered by service level agreements (SLAs) with financial penalties.

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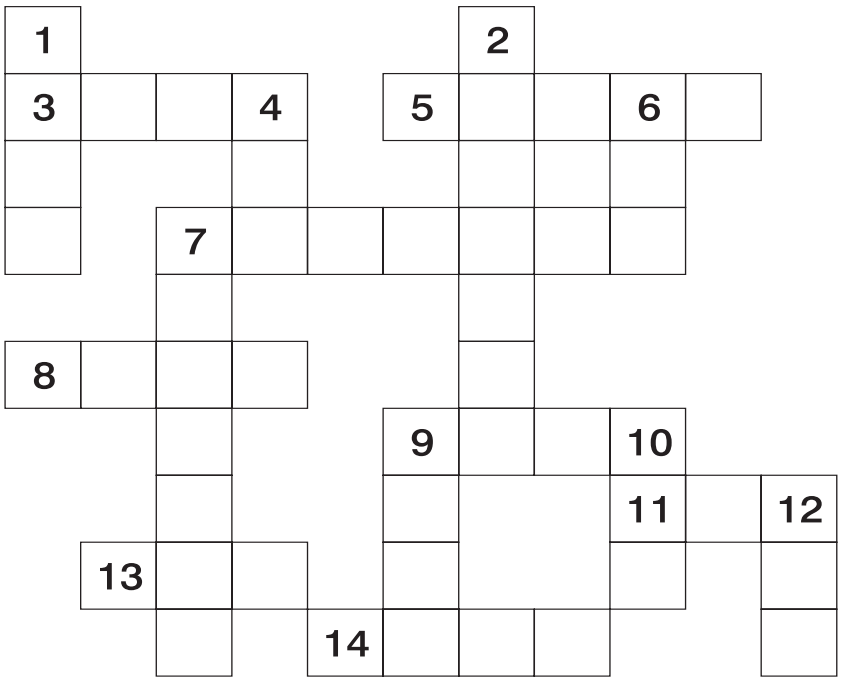
CROSSWORD



ACROSS

3. A strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project.
5. SA 299 is related to the Responsibility of ..... Auditor/s.
7. Goods, other than imported goods, transported in a vessel from one port in India to another.
8. ..... index is used to measure inequality in income and wealth.
9. A sequence of 8 bits processed as a single unit of information
11. A retailer can not charge more than this price.
13. A ..... statement is a systematic record of all economic transactions between one country and the rest of the world during a year.
14. ..... protects the interests of investors in securities and regulates the securities market.

DOWN

1. The Planning Commission estimates the incidence of poverty on the basis of the sample surveys carried out by .....
2. ER-1 is a ..... return required to be filed by large units.
4. The Core Group constituted by the MCA has approved ..... separate sets of Accounting Standards u/s 211(3C) of the Companies Act, for convergence with IFRS.
6. It means the same as zero.
7. Three components of audit risk are Inherent, ... and Detection risk
9. ..... rate replaces Benchmark Prime Lending Rate from July, 2010.
10. ..... is a fixed principal and interest payment made against a debt each month, with the goal of paying off the debt over time.
12. Government of India is actively pursuing ..... in order to bridge the infrastructure deficits in India.

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