Challenges

The takeover of Corus by Tata is not so easy with Brazilian steelmaker CSN coming into race to acquire Corus.

It the initial phase itself, it has made a bid of 475 pence a share against Tatas 455 pence. The threat for losing Corus race by Tata does not end here. CSN along with its various nominees already holds 22% stake of Corus that means it now requires to buy only 78% more.

Tatas will have to work out its strategies to acquire 100% stake of Corus which will definitely require more cash. Tatas will have to make its final bid by January, 2007 before the Extraordinary General Meeting (EGM) of Corus shareholders.

Inspite of the above threat, the Tata's rich experience and background and previous successful takeovers will surely boost the level of confidence of Tata Steel & its shareholders.

Top Overseas Acquisitions Made by Tata Group

Acquirer	Acquisition	Value (in $ million)
Tata Tea	Energy Brand Inc.	677
Tata Steel	Nat Steel	486
Tata Tea	Tetley, UK	407
Tata Steel	Millennium Steel	404
Tata Coffee	Eight O' Clock Coffee	220

Mutual Funds – A Change in Indian Investment Perspective

D. Diva Kishore

Mutual Funds have become a new 'Mantra' for Indian Investors. Mutual Funds market plays a predominant role on par with other investment instruments. There has been a tremendous shift from traditional investment avenues like N.S.C. and P.P.F. etc to Mutual Funds and this trend is rapidly increasing day-by-day.

Within a span of 6 years, the total assets under management in Mutual Funds Industry have grown from Rs. 68,000 crores to Rs. 1,50,000 crores and this clearly indicates the potential development and growth of Mutual Funds Industry.

Traditionally, Indian Investors invests in Bank Deposits, P.P.F, N.S.C and K.V.P., etc. The beginning era of market-determined-economy in 1990 started the decline in the highly assured returns and at present the interest rate remained constant at 8% on the instruments like N.S.C. and P.P.F. and other Postal Saving Schemes.

Though the aforesaid rate of return is completely free from any risk (which is suitable to risk averse investors), an investor with risk appetite may think this rate of return is far from that what has been yielded by the several schemes of Mutual Funds now-a-days. At present K.V.P. doubles the money in 8 years 7 months. But some Mutual Fund schemes witnessed that the money contributed has doubled in its value within a span of 3 years. However, investments in Mutual Funds are subject to market risk.

With the formulation of Mutual Fund Regulations in 1996 and other stringent regulations, Mutual Funds Industry, being continuously monitored by SEBI and other bodies like Association of Mutual Funds in India (AMPI), became the leading platform for wealth generation, return yielding (in the form dividend and capital gains), financial and tax planning.

Mutual Funds are of several types like open-ended and close-ended funds, load and no-load funds, equity oriented and debt oriented funds, balanced funds, sector funds, Tax saving funds (popularly known as ELSS), opportunities funds, mid cap and small cap funds, index funds, fund of funds, Monthly Income Plans etc.,

Several schemes are being designed by Mutual Fund Companies to cater to the needs of different types of investors according to their level of income, risk profile, age group, tax benefits, liquidity requirements (i.e. lock-in period, if any) etc.,

The author is a student of the Institute.

One of the major reasons for the risk taking investor to get attracted into Mutual Fund Investment is the impressive return that has been yielded by several Mutual Fund Schemes especially diversified equity funds and tax saving funds (ELSS) with a CAGR (Compounded Annualized Growth Rate) ranging from 60% to 90%. Another benefit of investing in Mutual Funds is the risk diversification because Mutual Funds invest in well-diversified portfolio of securities.

If a person wants to invest in securities market like equity shares, he has to carefully calculate risk and build his portfolio in such a way that his risk is diversified to a maximum extent possible. But in this dynamic environment, an investor, who does not have much time to devote for this task and already preloaded with his assignments, can transfer this task by investing in Mutual Funds to a fund manager who got professional competence to handle this task.

Along with high returns, investors can also get tax benefits in the form of deduction under sec. 80C of the Income Tax Act by investing in ELSS. However, investment in ELSS Schemes will be kept in lock for a period of 3 years. Before going to invest in an ELSS Scheme, it is recommendable to compare the funds by appraising the returns for the last 3 years instead of going by 1 year. Also the measures of the risk such as SD (Standard Deviation) and ratios like Sharpe Ratio and Treynor Index can be used to evaluate different types of funds. Examples of some of the tax saving funds are SBI Magnum Tax Gain, HDFC Tax Saver, Sundaram Tax Saver, TATA Tax Saving Fund, Birla Equity Plan, PRU ICICI Tax Plan, HDFC L T Advantage Fund.

As the sectoral caps have been removed by Finance Act 2005 with the removal of rebate u/s 88 and introduction of deduction u/s 80C, investor has the opportunity to invest to avail the tax benefits to a maximum extent of Rs. 1 lakh in whatever tax saving funds' he wants according to his investment taste and risk-return profile. Also this favours a rational investor to follow the old saying "Don't put all eggs in one basket".

Generally, NFOs doen't charge any load so that investment of Rs. 10,000- by an investor will fetch him 1000 units at the @ 10/- per unit. An open-ended fund may charge load (entry or exit) as per the terms and conditions of the scheme subject to specified regulations. Some of the schemes may follow to charge the load on a differed basis known as CDSC (Contingent Differed Sales Charge).

One of the significant features of Mutual Fund is that the Mutual Fund offers greater flexibility in the minimum amount required to be invested. There are certain funds, which offer schemes with minimum amount of investment, as least as possible say Rs. 5001-. Example: DSP Merrill Lynch Tax Saver Fund.

With this flexibility even smaller and lower income people also can route their household savings into these types of funds and earn a reasonable rate of return along with tax benefits. So, if a Tax Payer estimates this his total income will be only Rs. 1,04,000, he can simply invest Rs. 4,000 and get out of the tax net.

Even a risk averse investor can go for Mutual Funds by investing in lower risk funds which comprises a greater portion of it's portfolio in debt instruments. Example: Franklin India Capital Safety Fund.

At the time of investment investor has to choose one of the three options i.e., growth, dividend payout, dividend reinvestment. Those with higher risk appetite can opt for the growth option, which takes into account the benefit of effect of compounding. Dividend payout ensures the investors to get periodical dividends, which enable them to crystallize the profit so made by the fund. On the other hand, dividend re-investment converts the dividend amounts into units calculated at the NAV prevailing on the relevant date. Switch over facility between the options will also be available to investor.

Systematic Investment Plan (SIP) and Systematic Withdrawal Plan (SWP) are on increasing trend in Mutual Fund Industry. SIP enforces discipline among the investors in saving the money for the future requirements and enables them to contribute to the fund in monthly installments instead of making one time payment of lump sum amount. This type of investment option gives greater flexibility to the investors especially salaried employees. In the similar way SWP enables an investor to systematically withdraw his money from the fund. SIP also takes into account the effect of averaging.

So far as the tax considerations are taken into account, Long term Capital Gains on equity funds are exempt u/s 10(38) of the Income Tax Act. Short term Capital Gains are chargeable to tax at a lower rate of 10%. Whereas the debt funds are considered, Short term Capital Gains are chargeable to tax at the corresponding slab rate applicable to the taxpayer. Long term Capital Gains are taxable @ 10% without the benefit of indexation or 20% with the benefit of indexation.

For the purpose of advice with regard to the financial planning and information regarding Mutual Funds, investors can take the help of Mutual Fund advisors (AMFI Certified Mutual Fund advisors) who can provide them value added services. Fortunately, there are large number of registered Mutual Fund Advisors and Financial Planners in India.

In this view, Mutual Fund plays a leading role in Indian Investment scenario and is becoming a strong and potential base for Indian Economy.

Accounting of Sale and Leaseback Transactions

Praveen Sharda and Vini Sharda

A sale and leaseback transaction is one where an asset is sold by 'A' (seller-lessee) to 'B' (buyer-lessor) and simultaneously 'B' agrees to lease out assets to 'A' for a consideration, known as lease rentals. The two transactions are composite as the lease payments and the sale price of the asset are usually interdependent and negotiated as a package.

Sale and leaseback transactions are undertaken by companies as a part of business restructuring to ward off liquidity and solvency risks faced on account of continued losses. The company through sale of fixed assets generates enough cash to finance its working capital needs and at the same time has those assets to continue with its business activity.

The accounting treatment of a sale and leaseback transaction would depend upon the type of lease involved. Besides usual entries, sale and leaseback transaction involves consideration and treatment of profit or loss of sale of asset taken back on lease. Para 47 to 55 of Accounting Standard 19 : Leases (AS-19) lays down the treatment of the profit or loss on sale of assets taken back on (finance or operating) lease.

PART I

Sale and Leaseback transaction resulting in a Finance Lease

Books of the Seller-Lessee

In a transaction of sale and leaseback resulting in a finance lease, any profit (sale proceeds minus carrying amount) or loss (carrying amount - sale proceeds) on sale of the asset should not be immediately recognised as income or loss of the period. Para 48-49 of AS 19 requires that such excess (profit) or deficit (loss) should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

However, Para 53 of AS 19 require immediate recognition of loss on account of impairment in value if the carrying amount of the asset is less than its fair value on the date of its sale. Thus, the loss being the difference between the carrying amount and the fair value of the asset has to be immediately recognised in accordance with AS - 28 so that assets are recorded at their recoverable amount before sale and leaseback transaction is executed and recorded.

Disclosure in Balance sheet

AS - 19 has not suggested disclosure norm for the unamortised portion of 'deferred loss (or profit) on sale of assets' at the year-end. Some companies have been disclosing the unamortised portion of deferred loss on sale of asset under "Loans and Advances" (Timex watches Ltd.) while others have been treating it under the head" Miscellaneous Expenditure". Unamortised portion of 'deferred profit on sale of asset' shall be disclosed under the head "Reserves and Surpluses" till it is fully set-off.

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PART II

Sale and Leaseback transaction resulting in an Operating Lease

Books of Seller-Lessee

Para 50 of AS - 19 has visualised three situations and each situation is further subject to three preconditions. See Box I. This is also amply illustrated in the appendix to AS - 19. Thus accounting of a sale and leaseback transaction resulting in an operating lease require an clear understanding of the three situations and the preconditions.

The three situations contemplated in a sale and leaseback transaction are:

1. where the sale price is established at fair value, i.e. SP = FV
2. where the sale price is established at below fair value, i.e. SP < FV
3. where the sale price is established at above fair value, i.e. SP > FV

And the three preconditions common to all the three above situations are:

1. where the carrying amount is equal to fair value, i.e. CA = FV
2. where the carrying amount is less than fair value, i.e. CA < FV
3. where the carrying amount is above fair value, i.e. CA > FV

The amount at which an asset is disclosed in balance sheet is its carrying amount (CA). Fair value (FV) is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Box I

Situations	Preconditions common to all situations		
	When the -		
1. If sale price is established at fair value (i.e SP = FV)	(A) Carrying amount	=	Fair value
2. If sale price is established at below fair value (i.e SP < FV)	(B) Carrying amount	<	Fair value
3. If sale price is established at above fair value (i.e SP > FV)	(C) Carrying amount	>	Fair value

Situation I: If the sale price of the asset is established at fair value (i. e. SP=FV), then any profit or loss in a sale and lease back transaction should be recognized immediately. Para 50 of AS-19. Refer Table I.

Table I
If sale price is established at fair value (i.e. SP = FV)

Particulars		Preconditions (A) (CA=FV)	(B) (CA<FV)	(C) (CA>FV)
a. Carrying amount of asset	(Rs.)	100	80	120
b. Fair value of asset	(Rs.)	100	100	100
c. Sale price of asset	(Rs.)	100	100	100
		(c-a) no loss no profit	(c-a) Profit Rs. 20; Recognise Profit Immediately	(c-a) Loss Rs. 20; Recognise Loss Immediately

When sale price is established at fair value AND carrying amount is equal to fair value (situation I / condition A), i.e.

SP = FV, and
CA = FV

No profit or loss shall accrue on sale of the asset taken back on operating lease.

When sale price is established at fair value and carrying amount is less than fair value (situation I condition B), i.e.

SP = FV, and
CA < FV

the sale of the asset will result in profit which should be recognized immediately.

When sale price is established at fair value AND carrying amount is more than the fair value (situation I / condition C), i.e.

SP = FV, and
CA > FV

the sale of the asset will result in loss which should be recognized immediately.

Situation II: If the sale price is established below fair value (i.e. SP < FV), any profit or loss on the sale of the asset should be recognised immediately. However, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. Para 50 of AS-19.

Para 52 of AS-19 requires the seller-lessee to book impairment loss if the fair value at the time of sale and lease back transaction is less than the carrying amount of the asset (CA < FV). The impairment loss shall be the difference between the carrying amount and fair value of the asset. At this stage the carrying amount of the asset shall be equal to its fair value. Refer Table II.

Case I

If lease rentals are at market rate : loss must be recognised immediately

Case II

If lease rentals are lower than market rate : Loss must be deferred and amortised during lease term. It may be disclosed in balance sheet under the head "Loans and Advances" or "Miscellaneous Expenditure".

When sale price is established at below fair value and carrying amount,is equal to fair value (situation II condition A), i.e.

SP < FV, and
CA = FV

there is no profit on sale of the asset. The transaction will result in a loss. If such loss has been compensated by future lease payments below market price, the loss is deferred and amortised over the lease term. Otherwise, the loss is recognised immediately.

Table II
If sale price is established at below fair value (i.e. SP < FV)

Particulars		Preconditions (A) (CA=FV)	(B) (CA<FV)	(C) (CA>FV)
a. Carrying amount of asset	(Rs.)	110	90 (or 105)	120
b. Fair value of asset	(Rs.)	110	110	110
c. Sale price of asset	(Rs.)	100	100	100
		(c-a) no Profit; Loss Rs. 10;	(c-a) Profit Rs. 10; Loss Rs. 5	(a-b) apply para 52, book impairment loss Rs 10*

*so as to bring the carrying amount equal to the fair value.

When sale price is established at below fair value and carrying amount is less than fair value (situation II/condition B), i.e.

SP < FV, and
CA < FV

the sale of the asset can result in profit or loss depending upon its carrying amount. (see Table II). The profit must be recognised immediately; Loss must be treated as described above.

When sale price is established at below fair value and the carrying' amount is greater than fair value (situation II / condition C), i.e.

SP < FV, and

CA > FV

applying para 52 of AS 19, the lessee (seller) shall book the loss on impairment of asset to bring the carrying amount equal to the fair value. At this juncture, the asset is recognised in books at fair value (i.e. recoverable amount).

On sale of the asset there will a loss which shall be treated a similar way as narrated above.

Situation III: If the sale price is established above the fair value, that portion of profit which represents excess of sale price over fair value (i.e SP-FV) should be deferred and amortised over the lease term. The portion of profit representing the difference between fair value and carrying amount (i.e. FV - CA) should be recognised immediately. Refer Table III.

Table III
If sale price is established at above fair value (i.e. SP > FV)

Particulars		Preconditions (A) (CA=FV)	(B) (CA<FV)	(C) (CA>FV)
a. Carrying amount of asset	(Rs.)	90	80	100
b. Fair value of asset	(Rs.)	90	90	90
c. Sale price of asset	(Rs.)	100	100	100
		(c-a) Profit Rs. 10; Defer and amortise.	(c-a) Profit Rs. 20; Recognise profit of Rs. 10 immediately. Defer and amortise profit of Rs. 10	(a-b) apply para 52; book impairment loss Rs. 10*;

*so as to bring the carrying amount equal to the fair value.

When sale price is established above fair value and carrying amount is equal to fair value (situation III/condition A), i.e.

SP > FV, and
CA = FV

the profit of Rs.10 on sale of the asset representing excess of sale price over fair value (SP - FV) is required to be deferred and amortised over the lease term.

When sale price is established above fair value and carrying amount is less than fair value (situation III/condition B), i.e.

SP > FV, and
CA < FV

the profit on the sale of the asset shall comprise of two parts: one, representing the excess of the sale price over the fair value (i.e. SP - FV), and two, representing the excess of the fair value over the carrying amount (i.e. FV - CA).

The profit representing the excess of the sale price over the fair value (i.e. SP - FV) shall be deferred and amortised over the lease term, while profit representing the excess of the fair value over the carrying amount (i.e. FV - CA) shall be recognised immediately.

When sale price is established at above fair value and carrying amount is greater/more than fair value (situation III / condition C), i.e.

SP > FV, and
CA > FV

para 52 of AS 19 require the lessee (seller) to book the loss on impairment of asset (CA - FV) so as to bring the carrying amount equal to the fair value. At this juncture, the asset is recognised in books at fair value (i.e. recoverable amount).

The profit on sale of the asset shall be deferred and over the lease period. ❑

Think and Succeed

Archana Sarat

"Man is made or unmade by himself. *In the armory of thought he forges the weapons by which he destroys himself, he also fashions the tools with which he builds for himself heavenly mansions of joy strength and peace. By the right choice and true application of thought, man ascends to the Divine Perfection; by the abuse and wrong application of thought, he descends below the level of the beast. Between these two extremes are all the grades of character, and man is their maker and master."*

– James Allen, As a Man Thinketh

Every act that man performs germinates from the realms of his mind as a seed of thought. The mind of man, when born, is like pure, fertile soil. Something has to grow on it. If he fails to sow seeds of prosperity and joy, then the weeds of poverty and sorrow will find ground there. The challenge for every man is to make a wonderful harvest in his lifetime using the very best fertile seeds of thought.

Every one of us is plagued by various desires desire for riches or fame or good health or a peaceful family life or all of the above. All of these are within our reach. We have to just open the arms of our mind, demand them to come to us and they will be ours. Surprised? Yes, it is true. The only thing other than hard work that can lead us to the summit of success is our thoughts. Today's thoughts will serve to build our dreams of tomorrow.

Each of us has a thousand reasons for our failure. However, the world does not want to know why we failed but only wants a reply for whether we succeeded. Napoleon Hill in his bestseller, "Think and Grow Rich' states, "success requires no explanations; failure permits no alibis."

"It has always been a mystery to me," said Elbert Hubbard, "why people spend so much time deliberately fooling themselves **by creating explanations to cover their weaknesses**. If used differently, this same time would be sufficient to cure the weakness, then no explanations would be needed." So, let us stop finding excuses to explain away our lack of persistence and planning and laziness. **Any circumstance or obstacle can be overcome by us**. Remember, all adversity, failures and heartache carries with it the seeds of an equivalent or a greater benefit.

Now that we have put our minds into achieving the very best of our ambitions, let us analyze the pathway that we should pave to reach our desired goal.

1. Goal setting

What is it that we really want from life? What are our innermost desires? It is very vital that we identify them. Only then, we will get a definiteness of purpose. We have to know where we are heading only then can we can reach there. Remember, anything that the mind of man can conceive and believe in, it can achieve.

"Dwell in thought upon the Grandest,
And the Grandest you shall see;
Fix your mind upon the Highest,
And the Highest you shall be."

– James Allen

Do surely write down your goals on paper and see them everyday. That will reinforce in your mind the direction in which you should be heading. This way all unnecessary and unwanted thoughts and acts that deviates you from destination can be checked and avoided. Focus only on worthy acts and thoughts.

2. Absolute faith

"If you believe you can do a thing or
If you believe you cannot
you are right."

– Henry Ford

We should develop a burning desire for the goals we wish to attain. Read that sentence again. I did not mention a liking or a wish or a hope but what is needed is an absolute craving and burning desire. We should have complete faith that we will achieve it in spite of the umpteen obstacles and failures which we meet in our endeavors. **Remember, the minute before dawn is the darkest of all.** Just before success, there is mostly a heartbreaking failure. The one who succeeds is the one who uses that failure as his stepping stone to success.

The only way that we can develop this level of confidence in our goal is by **constant reinforcement of our goal in our mind.** Change "Can I?" to "I CAN" and keep repeating it to yourself. We should establish in our minds the thought that we have reached our goal and live our life as if we have succeeded. This fools the subconscious into believing that it is true and it starts working to make it true.

When I was a CA intermediate student, I had made a name board for my study room with the words Ms. Archana, B.Com., A.C.A.' What I had done for fun had actually played a vital role in my subconscious mind and it fooled my mind into believing that to be true. The rest was a walk in the park. I achieved my goal easily as my mind made way for the best of opportunities to reach me. The name board made for fun is now hanging true.

The opportunities always exist, but we never discover them because we do not have clarity and coherence in thoughts. Once we write down our goals and reinforce in our mind our desire for them, we start identifying opportunities in places and people everywhere. Remember, the time when you got the latest fashion shoes, how everyone you saw on road was also wearing them. The truth is that they were always wearing them. It is only now that you are noticing it.

3. Knowledge

Knowledge is power. To achieve our goal, we should gain all the requisite knowledge. If you want to write a bestselling biography of Mahatma Gandhi, you have to gain absolute knowledge of Gandhiji. You have to read all of his books, books written about him, the old

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articles about him in newspapers and magazines, etc. Without gaining this knowledge, it would be impossible to write a book about him. Since you have fixed your goal and written it down, the subconscious mind will direct you to all the places and books that you may need. The act of reading them and gaining knowledge is up to you.

4. Planning

Failing to plan is planning to fail. A definite plan with a burning desire for success is the only dependable means of achieving our goals. Making practical and workable plans is the first step to reach our goals. If you face failure, don't change your goal but change your plan and try again. **A quitter never wins and a winner never quits**.

Break up your master goals into a series of small goals and keep a time frame for the achievement of each one. Be ready to give up television, useless magazine reading, sleep and everything else necessary to achieve your goal. Once you achieve each small goal, reward yourself with something you like. May be, you can go for a spa treatment or curl up in bed for extra two hours as a special reward. This will make you happy and give you a sense of achievement.

5. Persistence

A long while ago, a great warrior sent his armies against a powerful foe whose men outnumbered his own. He loaded his soldiers and equipments into boats, sailed to the enemy's country, unloaded everything and then burnt all the ships. Then, he addressed his men, saying, "You win or you perish!" They won.

This should be the mindset that each of us should develop. Most people give up their goals or accept something lesser than what they desire at the first sign of failure or misfortune. Will power and persistence is required at these times. **Accept nothing else except what you desired**. Burn all your behind. Don't make any 'otherwise' plans. Only then will you persevere and attain your goals.

6. Support Groups

There is no meaning in success and joy if we have none to share it with. Spouse, kids, family and friends play a vital role in our lives. Having a few people to whom you can confide your goals and who would inspire and urge you to attain them is real blessing. Try to find such people in your lives. Friends are people **easy to find but hard to keep**. So, these special people should be safeguarded by and from your words and actions.

Reflect on these few nuggets of relationship wisdom and incorporate them in all your dealings with people.

i) **Always have a win-win attitude**. You can never reach high by trampling on the people below you. Even if you do, the resultant success would be temporary and unpleasant.

ii) **Surround yourself with positive and inspiring people** who influence you to think and act for yourself. Keep your mind closed against all people who depress or discourage you in any way.

iii) Speak less and listen more.

iv) "Manners maketh the man". **Show politeness and courtesy to all around you**. No one can insult you without your permission. So, do not stoop to their level but remain controlled and poised. Never get angry and never raise your voice.

v) Don't condemn or criticize anyone. **Avoid arguments**. Keep quiet if you do not agree.

vi) **Give honest and sincere appreciation abundantly.**

vii) **Always develop your contacts**. Try to remember the names of all people you meet. Write letters and make phone calls to all your distant friends and relatives.

This first thing which we all should learn is to control our minds. If you fail to control your own mind, you must be sure you will control nothing else. Plato said, "The first and best victory is to conquer self. To be conquered by self is, of all things, the most shameful and vile."

Meditate for at least 10-15 minutes everyday. Sit on a quiet corner and calm down your mind. Now imagine that your mind is a huge diamond inside a cage and you are the guard standing at the door of that cage. Check every thought that comes to your mind and allow only the positive ones filled with joy, love and appreciation to pass through. Banish the rest right away. Not just during the meditation time but even during the rest of the day, you can continue doing this subconsciously and this will lead to self-control. Your mind will be clean and fertile and you will reap a huge harvest out of your endeavours.

"Life's battles don't always go
To the stronger or faster man,
But soon or late the man who wins
Is the man WHO THINKS HE CAN!" ❑

Corporate Restructuring - Mergers, Demergers, Acquisitions and disvestments

Jyostna Kancharia

Corporate restructuring is a wonderful term. Just the phrase that suits the modern jargons finance comes up with. The basic meaning does not elude us, though. Restructuring in itself suggests the existence of an object. It is the alteration that we do to this object that matters. Of course, corporate restructuring is the same, in a corporate environment.

So, what exactly is it?

Restructuring comes in many forms. We have our own definition of it in AS 29. A planned and controlled action by the management that changes materially either the scope or manner of business. Generally it involves dismantling a company, and reorganizing it. This reorganization may take many forms and structures, like splitting up of a company, consolidating it, or making major changes in the management of the company, including severe staff reductions. Other forms may involve the following characteristics:

- Outsourcing of non-core as well as core business operations.
- Relocating major business operations. This especially involves moving to less costly areas of function in terms of manpower, materials and overheads.
- Relocating of operations to improve efficiency through better technology.
- Transfer of ownership in case of underutilized assets or non-performing assets.
- Major changes in the top management, which usually involves a golden parachute. A golden parachute is the polite way of firing your CEO by giving them a nice package, oozing with all money. (This agreement is usually entered into with the employee that they can jump out with a golden parachute in case of acquisitions).
- Reorganizing the finance structure of a company.

Why to reorganize?

The basic principle behind any restructuring is to add value to the shareholders. Increase in wealth is the main objective of finance, and restructuring strives to achieve that:

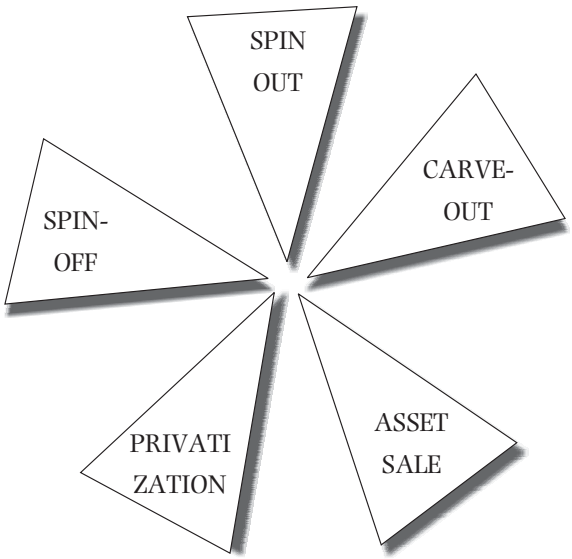
- Reducing overheads and working capital by amalgamating into an efficient company.
- Focus on core competencies by spinning off other activities.
- For availing tax concessions by taking over a loss making company.
- Diversification will help to reduce risk and variation in earnings, increasing investor confidence, and thus attracting risk-averse investors.
- The combined unit can get a dual customer base. This can be done by acquiring a company that sells complementary products.
- Companies with similar business can expand their customer base by merging.
- To attain synergy for better use of combined resources.

Restructuring can help to attain greater wealth by diversification of risks, consolidation of customers and strategies.

Does two plus two become four? Not necessarily. If it does, a company is indifferent to restructuring. But mostly, it's either greater to or lesser than four. Hence the logic that follows is better to let the two twos remain two rather than three together. And conversely, to add them up to five. Two basic principles have been used extensively by corporates, especially in the last two decades to achieve greater value for the shareholders, customers and employees(?).

(A) Spin-off

Curiously, the term spin-off did not originate in the corporate environment. Television series and cartoons were spun off from the original versions to save the viewers from boredom and producers from dropping ratings. Likewise shareholders and the company had to be saved from stagnant activities, and unprofitable operations. However, it shall be sacrilege on our part to impress upon you that spin-offs are used in



The author is a student of ICAI. This article is an extract from a paper presented at 19th All India CA Students' Conference held in Chennai on 26th & 27th August, 2006.

circumstances of decline alone. Spin-offs and spin outs are more in the nature of intrapreneurship. Employees are given the reigns and asked to control, resourcing from their parent. Taking a step further would be to spin-off, especially in areas which struggles to fit into the core competencies of the business. The extension of intrapreneurship allows the companies to test the ideas of their employees, while retaining their focus on its core activities. Of course, spinning off also gives independence to the employees, enhancing their efficiency and effectiveness.

(B) Carve-out

Carve-outs are similar to spin-offs, and have most of its characteristics. But it differs in one obvious thing, that is, the issue of shares. In case of carve-outs, the shares in the new company are issued to the public, as against their issue to the existing shareholders (as in spin-off). Thus they result in generating cash inflows to the company. Many times, carve-outs result with the parent company controlling the spun-off unit (as a subsidiary i.e. the parent will also buy shares or retain control by management), as a result of which the advantage of spinning off a poor fit is diluted.

The parent company still retains control over the spun off units, not relieving fully the shareholders' concern about owning poor fits.

Carve-outs retain most of the other benefits of spin-offs, the main objects being the rewarding the employees based on independent performance and concentration of the top management on core activities. Sometimes, carve-outs are the initial step taken by the company to spin-off an entire subsidy. A lesser portion carved out will lead to the sale or spin-off of an entire unit, after the management sees the performance of shares following carve-out.

(C) Spin-out

Spin-outs are unlocking the technological potential of a corporate. These are not well known as are spin-offs, but have been used effectively by high technology industries. Spin-offs are very similar to spin-outs and are many times used interchangeably. How does spin-out differ from spin-off? To answer this, let's first look more into a term that we have mentioned before. Intrapreneurship is a less common phrase, though its potential is being opened in large firms. If you give the independence of an entrepreneur to your employee, will it work out? Some say it does, and they have used it successfully too. Bestowing employees with the status of independence has been suggested by many corporate gurus, and intrapreneurship is an extension of this. Employees are given a free hand, with the resources from the management, and are able to achieve targets with greater efficiency. Spin-offs and outs are an augmentation of intrapreneurship. Weaving in and out into offs and outs is dizzy, indeed, but both involve the splitting up of an existing division of a company.

So, *how different is spin-out from spin-off?*

Spin-outs utilize the rapid development in high technology industry, by diffusion of technology. American Economic Association, in their EconLit web search, quote Franco and Filson's article that spin-outs are *knowledge diffusion through employee mobility.* Technology is one of the most valuable resources, and having an ounce of it is worth a ton, provided you nourish it well. Employees are willing to accept lower wages in high technology industries, in order to get exposed to it. This will help them to spin out in the future, with the know how of the parent. In most spin outs, the parent facilitates the spun out company, the main objective of the parent being to assist the spun out company to grow in its initial years, by investing in the spun-out company, or buying its products to generate cash flows.

(D) Privatization

Disinvestments / Privatizations are the sale of government owned enterprises to the private sector. The terms are used interchangeably, except sometimes privatization may be used in the general context (as the privatization of economy), while disinvestment may refer to specific sale of government units. And of course, there is no better place to study disinvestments, other than India where it's a constant debate. The business of government is governance, not business. Makes sense, doesn't it? Disinvestments are always welcomed by the shareholders in India, and there is a scramble for the shares, which is many times oversubscribed. Almost always the issues of privatizations come in transition economies. India is still in the list, and we can always expect future entertainments from our divestors.

Why to disinvest?

Governments mostly learn the hard way out that socialist and communal economies don't always work out. Accepted, that it is an excellent form of economy and governance, provided we all pledge to be Ghandhians throughout our life. But as most are not, we can safely quote the following reasons:

- To improve the overall functioning efficiency of the enterprise by opening it up to the private sector and exposing it to the market competition. Just think about the service of the telephone departments a decade back and now.
- To curb corruption and red-tapism.
- Improve the financial stability of the enterprise by raising money from the public.
- Managers are liberated and made responsible for their actions and accountable tor the performance of the enterprise.

Why should a privately owned enterprise do better than the government? The basic concept is that private owners have a genuine profit motive, which the government lacks. Governments have the power to raise funds as taxes, and economists believe that such tax money should be spent for better purposes than funding loss making public sector undertakings. Even if the government wants alternative sources of cash flows apart from taxes, raising money through the debt market is much cheaper and better than relying on PSUs. ❑

e- learning initiatives of the ICAI

World-over e-Learning has evolved to become effective medium to impart education. It has become a buzzword among students' fraternity and no academic institution can afford not to follow this route. There are umpteen reasons why organizations introduce e- learning. In its efforts to use modern tools of information technology, the ICAI has planned to introduce e-learning portal "ICAI-Online". Initially it will be for the students of Professional Competence Course and gradually scaled up to cover other courses. In addition, 100 hours of Information Technology Training will also be imparted online. It will have following advantages for the students:

1. Convenience

E-learning is certainly revolutionizing the current teaching method, not only due to the easiness and low price involved but also because of the comfort in learning it may provide.

You can log on to the site from wherever you want, whenever you want, day or night i.e. 24×7×365 basis. You can even study from the comfort of your own home. You don't need to worry about the time or about arriving late for the class. In fact, you don't even need to leave your home.

2. Flexi Schedule

You do not have to bother how you will manage time for your oral coaching classes while you are undergoing the articled training. E-Learning offers you flexi schedule as per your time management.

3. A Superior Learning Platform

Many online courses consist only of scrolling through long passages of text. The ICAI will offer a progressive, highly-interactive online learning experience involving enriching videos, ambient sound, engaging imagery and instructional narration. You will get interactive guidance while solving problems of accountancy, cost accounting , financial management and taxation.

4. Distinguished Faculty

You will get opportunities to interact with talented and industry-experienced instructors of the ICAI at scheduled time and resolve your queries instantaneously.

5. Affordability

On line courses on all six subjects of Professional Competence Course and 100 Hours Information technology training will be available at a nominal fee.

6. Online Discussion Boards

"ICAI-Online" shall allow you to form discussion groups or forums to facilitate discussion and collaboration with like-minded group of students having a common focus or interest.

Online 100 Hours Information technology Training

100 Hours Information Technology Training (ITT) shall be available on this site on an optional basis. This is in addition to the existing system of classroom training through Regional Councils / Branches / other accredited institutions. Students will be able undergo ITT online and appear in the examination at the approved centres.

So, no more hassles of traveling long distances or staying away from your home for undergoing ITT.

Expected date of implementation of online 100 Hours ITT: February 1, 2007

100 hours Information Technology Training

In the new scheme of Education and Training, 250 Hours Compulsory Computer Training is replaced by 100 Hours Information Technology Training (ITT) with effect from 1st December, 2006. The new curriculum of 100 Hours ITT has been framed revamping the old curriculum. A student shall start 100 Hours of Information Technology Training only after undergoing three months of practical training by which he/she is expected to develop knowledge about the practical applications of Information Technology in various areas of professional practice. It is also desired that students should study the subject of Information Technology concurrently while undergoing 100 Hours Information Technology Training so that a proper balance between theoretical knowledge and practical application is achieved.

In order to provide the students with a reference material, the Board of Studies is providing a kit comprising of 3 modules of 250 Hours Compulsory Computer Training course material (which were used under the old scheme) and a supplementary study material. Students are advised to study only the relevant topics of these three modules along with the supplementary study material. A table giving the page references of the relevant topics of 250 hours Compulsory Computer Training Programme course material is included in the supplementary study material to facilitate the students for easy identification.

There are good number of students who registered themselves for 250 hours Compulsory Computer Training but did not start their training as on date, they should now undergo 100 Hours ITT. Such students, who have already received the course material for 250 Hours CCT, can get a copy of the Supplementary Study Material free of cost from the accredited institute where they will be undergoing 100 Hours ITT. Alternatively, the soft copy of the supplementary Study Material is available on the ICAI website www.icai.org/Students/Courses/Computer Course which can be freely downloaded.