



Aurangabad Chapter of Cost Accountants of WIRC of ICWAI

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Spandan
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IDEALS THE INSTITUTE STANDS FOR

- ? To develop the Cost & Management Accountancy professions
- ? To develop the body of members & properly equip them for function to ensure sound professional ethics
- ? To keep abreast of new development

Quarterly News Letter

From Chairman's Desk

Dear Members and Students ,

"Heartiest Congratulations for the publication of "Spandan" for the month of July 2009 of Aurangabad Chapter of Cost Accountants of WIRC of ICWAI. It is excellent creative work contributed by your team and complied very nicely. I have yet to see any comparative release of any chapters. I hope you will continue the endeavor and add knowledge of students & others. Once again congratulations!" With warm regards, A. B. Nawal, Managing Director Bizsolindia Services Pvt. Ltd.

With these encouraging words of our Ex WIRC Chairman, we are once again here with the next edition of our "SPANDAN" of October 2009. This is our fourth news letter and CMA Shri R. D. Khandalkar is the special invitee as "Editor". He is working as A.G.M. with IDBI Bank and is also Vice Chairman of our chapter.

The successful tradition of our Chapter was successfully maintained with hooping results of June 2009 examination. 40% of the students appeared for Final passed the examination which is the matter of pride. Overall 123 students passed in total from Aurangabad including all stages. This is big boost to each of us and also it enhances the confidence not only for students but also for faculties and office bearers.

I urge to the students of the current batch to start preparing for examination early with the advancement in date of December examination.

Students focus continued in the last quarter. The activity of conducting workshop on interview techniques helped. Most of the students are already placed in the suitable jobs. Key employer was Videocon which selected 4 CMAs in the last quarter. I congratulate the successful students and expect them to continue interacting with ACCA for professional updates.

We the "cost accountant" will now be announced as "Cost and Management Accountant" which is in line with international designation. This was the most awaited correction which was agreed by the Cabinet Minister for Company Affairs Hon. Mr. Salman Khursheed on 11.09.2009.

Professional development committee organized CEP for the members and final students on topic of Companies Bill, Direct Tax Code. Special topic of focus MERC was taken up in our internal discussions. Our ACCA recommendations are forwarded to WIRC and Central Council on all these topics to take forward as the Institute feedback to the Government.

Infrastructure improvement continues, the chairs in the computer lab are replaced, stabilizer and fire extinguisher was also purchased in this quarter.

I take this opportunity to congratulate Shri. G. N. Venkataraman for being elected as President of ICWAI and Shri. B. M. Sharma as Vice President of ICWAI and Shri. Manubhai Desai as a Chairman of WIRC.

I take the opportunity to thank CMA R. D. Khandalkar & his editorial team for bringing this edition successfully. Happy reading ahead ... !!!

CMA Sanjay Mundade
 Chairman
 Aurangabad Chapter of Cost Accountants



Editorial

Dear readers,

It gives me immense pleasure to present the fourth publication of "**Spandan**". First of all I welcome the new batch of Cost Accountants to the profession which includes 18 students of Aurangabad Chapter.

Since last one year or more world economy tasted bitter taste of recession and Indian Economy was no exception. This was due to "Sub-prime" debacle in America and consequent factors. The things however appear improving and the experts predict the end of down-turn in sight.

On Indian Scenario the indicators like IIP, employment, share price index etc have already started looking up which makes heartening news for Cost and Management professionals. The hopes further increase with the increasing role of CMAs through the statutes like Company Bill, Tax code and Expert Group recommendations. Even our demand for the change of name to ICMA is also approved by Govt. We as cost accountants hence expect a greater role to play in society which is off course paired with increased responsibility.

To give justice to our role updating knowledge, sharpening of the professional & presentation skills is must.

Through this bulletin members have contributed their views on various technical subjects for the students reading. An effort is also made to update on the important developments like Direct Tax Code, Company law bill. I appeal the students to contribute to the '**Spandan**' the lifeline of our publication.

With very good wishes for festive season already begun.

CMA R. D. Khandalkar

Vice Chairman & Editor



Training Committee

Dear Member & Student friends,

It gives me immense pleasure to present before you this issue. As you are aware, the results of June 2009 batch have been declared. Total 123 students have passed at various stages of the Course, out of which 18 students have completed the Course and have become Cost and Management Accountants, and 38 students have completed their Intermediate Examination. Heartiest congratulations to all the successful students. The entire credit of the exam results goes to students and the faculty members. The students should note that the new syllabus requires the application of the knowledge to a given business situation.

The oral coaching classes are in full swing. For the benefit of Intermediate students, apart from regular oral coaching lectures at Chatrapati College, Tutorial classes have been started in the morning at Chapter office and about 60 students are taking benefit of this tutorial batch. The objective of the tutorial batch is to have practice on practical papers of Advance Accountancy and direct taxation. For Final class students modular training programs have been arranged for having in depth practical knowledge of a given topic. I request all the students to attend the classes regularly and make active participation in the lectures and to study on regular basis. Students can raise their queries to the faculties and get answers for the same.

For the benefit of students particularly coming from outside Aurangabad, reading room facility is being arranged. We are also arranging guest lectures from outside faculties CMA P. D. Modh, CMA Dr. Vechalekar, CMA Sanjay Bhargave are going to deliver their lectures shortly on their respective topics. We are also planning to have library facility available according to the convenience of the students. There is a suggestion box. Students are welcome to make positive suggestion for the improvement in the working of the Chapter.

Best wishes to the Students and the Members for coming Vijaya Dashami !

CMA A. R. Joshi

Chairman - Training & Education Committee





Friends,

We are living in the 21st century which has just begun. We CMAs are fortunate that majority CMAs have entered the profession at nick of time. The sun has dawned on the profession. CMAs world over got recognition in say last quarter century of 20th century. India is now accepting importance of CMAs. The 21st century requires CMAs as ACCOUNTANTS because they are most suitable Accountants. Following scenario of the current century is making all the difference.

Scarcity of resources is there for all the time. But now the magnitude has increased. So also the importance of all resources. The importance is going to increase year after year.

This scarcity of resources leads to UTILISATION CONTROL and fine tuning RESOURCES ALLOCATION to various sectors of economic activity. Use of resources must create MAXIMUM VALUE for the society. This also calls for allocation of resources for economic & social activities so that optimal benefits to the society are achieved.

To achieve this objective, CMAs with expertise in Cost Management will be the choice. This century has also placed more & more authorities on REGULATORY BODIES such as Electricity Regulatory Commission, TRAI, SEBI, CCI, Anti Dumping Authority etc. The **Expert Group** has listed 30 such important bodies in INDIA. The functions of these bodies is to regulate Prices, Profits, Quantities & other behaviour of firms and individuals. As far as economic activities are concerned, the act of balancing between interests of consumers, competitors, investors and other stake holders in tariff fixation, subsidy policy and to ensure healthy competition needs RELEVANT COST AND OTHER DATA for which CMAs are & will be required.

Companies have to move from COMPLIANCE MECHANISM to PERFORMANCE MECHANISM. 21st century needs shift from CORPORATE GOVERNANCE to ENTERPRISE GOVERNANCE, Where companies have to create maximum value for ALL STAKEHOLDERS. It will be better for our country to catch up this change which is already established in western countries. Value creation needs ROBUST COST MANAGEMENT where CMAs are "CHOICE ACCOUNTANTS" CMAs are experts in BENCH MARKING various parameters which are needed to run enterprises efficiently. The CMAs are & will be the "MOST SOUGHT AFTER ACCOUNTANTS with major tasks of **measuring performance, controlling & enhancing performance and reporting performance**. CMAs are Business Accountants who know real picture of business entities. Various Stakeholders of companies have become vigilant & vocal. They will require "PERFORMANCE REPORTING" For this CMAs are most suitable Accountants.

Deficiencies in traditional financial disclosures have surfaced in the beginning of this century. Various SCAMS have shaken the confidence of investors & society in the corporate working, governance and financial reporting. The need of hour is disclosure which shows performance of companies in financial terms & do not restrict the disclosure only to compliance. Data showing resource utilization in terms of efficiency, productivity & Costs is needed. CMAs ARE NEED OF THE HOUR.

CMA M. R. Pandit

Chairman - Professional Development Committee of ACCA



ACCA celebrated Independence day at Chapter premises. Flag hoisting was done by CMA R. D. Khandalkar. More than 10 members were present CMA A. R. Joshi was felicitated being coopted as WIRC member for PDP and CEP committee. After Flag hoisting students started for the trip.



Trip was organized for students of ACCA on 15th Aug 2009 to Pital Khore & Mhaismal. More than 40 students with CMA S. R. Pimple and staff representative Mr. Ravikiran Patil enjoyed the trip.



Congratulations

Shri G. N. Venkataraman has been elected as President of the Institute of Cost and Works Accountants of India for 2009-10. He is fellow member ICWAI, Alumni of IIM, Ahmedabad and Associate member of British Institute of Management. He has served for over 14 years in Private Sectors like Tatas / TVS, Yenkey etc and over 26 years in Public sectors with Bharat Earth Movers Ltd. Bangalore, Mysore Paper Mills Ltd Bangalore on responsible positions. For the last 10 years he is practicing as a Senior Partner of M/s GNV & Associates, Cost Accountants.

Professional Assignments :

Secretary, Vice Chairman and Chairman of the Bangalore Chapter of ICWAI.
Secretary, Vice Chairman and Chairman of the SIRC of ICWA of India, Chennai
Chairman, Continuing Education Program of ICWA of India.
President, Bangalore Management Association for 2 years during 1999-2001
Chairman of the Golden Jubilee Convention of oldest LMA, that is, BMA of AIMA.
He also held various prestigious assignments.



Shri Brijmohan Sharma, has been elected as Vice-President of the Institute of Cost and Works Accountants of India, for 2009-10. This is his second term as Vice-President as he held the same position in 2005-06.

He is Fellow Member of INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA,

He is a Practicing Cost Accountant based in Pune having over 19 years professional experience. He has made in-depth study of VAT principle & practices and was selected for training on VAT conducted by NIPFB sponsored by Govt. of Maharashtra. He is a faculty for various seminars & courses on VAT held by Regional Councils and Chapters of the Institute of Cost and Works Accountants of India, ICSI, Branches of the Institute of Chartered Accountants of India and other professional and trade bodies. He has presented papers on VAT, Sales tax, Corporate Laws and effective vendor planning for management of Sales Tax / VAT leading to cost reduction.

Shri Sharma has participated in numerous seminars and conferences as paper writer, moderator, Chairman etc. and organized many of these programmes.

Shri Sharma was the Chairman of Professional Development (Technical) Committee of ICWAI for 2004-05, and was mastermind in publication of various professional development publications like Guidance Notes on Cenvat Audit, Valuation Audit under Central Excise Act, Vat - Its Accounting & Auditing, Input Tax Credit in Service Tax, Guidance Note for Valuation for CAS 4 under excise etc. He is also instrumental for bringing out four Management Accounting guidelines of Implementing Benchmarking, Valuations Management- A guide to Management Accountant, Implementing Corporate Environmental Strategies, Tools & Techniques of Environmental Accounting published recently by ICWAI.

As a ICWAI Council Member & Vice President he has extensively traveled all over India and abroad and represented India in various committees and meetings of International bodies of Accountants like South Asian Federation of Accountants (SAFA), Confederation of Asian and Pacific accountants (CAPA), etc.



MANUBHAI K. DESAI

We congratulate on his appointment as Chairman of WIRC. He is practicing as Cost Accountant since 1993. Prior to this he was engaged in service with Navin Fluorine International Ltd. (Arvind Mafatlal Group) as Dy. Accounts Manager and Constituted Attorney for 27 years.

Besides he has contributed his valuable services to Profession/Service :

- Chairman of Surat South Gujarat Chapter of WIRC of ICWAI continuously from 1994 to 2007.
- First to be elected from the South Gujarat Region to WIRC of ICWAI for the term 2007-2011. Treasurer and Chairman, Students, Members & Chapters Co-ordination Committee of WIRC for the year 2007-08.
- Faculty of ICWAI Learning Classes since 1993. Also Guest faculty at DBIM, Veer Narmad South Gujarat University and also at 'Adventist College for MBA full time course. Hon. Service as faculty for beneficiaries of Prime Minister's Scheme for Educational Unemployed Youth.
- Member of the Help Centre for service providers relating to Central Excise & Service Tax in Central Excise & Customs Dept. Surat.
- Imparted In House training to various class of students viz. employees of various departments, banks etc.
- In recognition to his outstanding and dedicated services he was awarded Distinguished vocational service award by Rotary Club of Surat Round Town .



CMA A R Joshi, Senior founder Member of Aurangabad Chapter of Cost Accountants is co-opted as Council Member of WIRC PDP & CEP Committee. We congratulate him and are confident that he will contribute to the development of profession.



Company Bill

Discussion on Draft Company Bill was organized by ACCA on August 30, 2009. Guest Speakers were CMA A. R. Joshi and Mr. Mahesh Singhi (Company Secretary of Nirlep group) around 20 members and students attended this workshop.



Introduction :

The Companies Bill, 2009 is re-introduced in Lok Sabha in the month of August 09. Almost all provisions of Companies Bill, 2008 have been incorporated in Companies Bill, 2009. The basic objective of the new Bill is to reduce Government interference and to make more and more transparency in the affairs of the Companies and giving ultimate authority to share holders in running the affairs of the Companies.

Major changes introduced in the Companies Bill, 2009 :

- ? All restrictions on managerial remuneration proposed to be removed.
- ? In case of related party transactions, disclosure, resolution etc. is required, but Government approval is not required.
- ? Concept of One Person Company introduced.
- ? Concept of Small companies introduced.
- ? Concept of dormant company introduced.
- ? Public Deposits not to be accepted by companies.
- ? Key managerial defined which will include in addition to the Company Secretary and Managing Director / Manager / Chief Executive officer, a 'Chief Financial Officer' for companies having prescribed paid up capital.
- ? Provision made for registered valuers for valuation of property, stocks, shares, debentures, securities etc.
- ? Besides accounting standards, auditing standards will also be mandatory.
- ? The remuneration of Cost Auditor appointed requiring share holders approval. The Board shall appoint the cost auditors u/s 131, No C.G. approval is required.
- ? Provision for Company Liquidators (clause 334) to be appointed from professionals.
- ? The concept of Independent directors proposed to be introduced in public Companies having certain capital as prescribed in addition to the listed Companies.

Summary of important changes proposed by companies bill, 2009 :

General :

- ? Concept of one person company introduced. [clause 3(10)]. Having at the end name OPC Ltd.
- ? Small company means a private company having paid up capital and turnover lower than the limits as prescribed [Clause 2(1) (zzzg)].
- ? Provisions relating to minimum capital of private and public companies dispensed with in the Act, but will be prescribed by rules.

Elimination of some unnecessary formalities :

- ? Provision relating to certificate of commencement of business dispensed with. Only deceleration within 180 days required by public company (clues 10)
- ? No Provision relating to statutory meeting and statutory report.

Incorporation of company :

- ? Articles can have entrenchment to the effect that specified provisions in Articles can be altered only if restrictive conditions as specified are met or complied [Clause 6(3)].
- ? Documents to be filed at the time of incorporation should contain name of first directors, their DIN, address etc., with consent and particulars of interest [Clause 7(f)]. Provision for 'printing' of memorandum and articles dispensed with.
- ? Change of registered office outside city by only special resolution. No permission required [Clause 11]. However, change outside State will require approval of Central Government [clause 12(4)].

Share Capital :

- ? Concept of shares with differential rights eliminated (Clause 37). However, as per saving provision in clause 423(2) of Companies Bill, 2009, shares already issued can continue.
- ? Certain Private companies issuing shares are not required to file return of allotment [Clause 34(5)].
- ? Class action suit can be filed jointly by some share holders.
- ? Specific provision relating to issue of GDR by companies (Clause 36).
- ? Issue of shares at discount prohibited except in case of sweat equity shares (Clause 47).

Public deposits :

- ? A Company (other than NBFC, banking company etc.) can accept deposit only from members. Acceptance of deposits from public is prohibited except by NBFC and banking company (Clause 66).
- ? If deposits accepted before the new Act are not repaid within one year, officer concerned will be personally liable (Clause 68)

Charges :

- ? If company fails to register a charge, person in whose favour charge is created may apply to ROC for registration of charge (Clause 70).
- ? The Charge Registration period increased up to 300 days. In present act it is 60 days.

Management and administration :

- ? Extract from Annual Return shall form part of report of Board of Directors [Clause 82(2)]. The Annual Return is linked to financial year and not the period up to AGM.

- ? For purpose of holding AGM, what is relevant is 'National Holiday' and not holidays under Negotiable Instrument Act [Clause 85(2)].
- ? If explanatory statement to general meeting does not disclose interest of director or manager or managerial personnel, he will be liable to compensate to company to the extent of benefit received by him [Clause 91(4)].
- ? If meeting is adjourned, notice of three days is required either individually or by press advertisement [proviso to Clause 92(2)].
- ? Voting by electronic mode at meeting will be permitted (Clause 97).
- ? Prescribed Secretarial Standards to be followed for Board and general meetings [Clause 107(10)].
- ? Listed company to file report of each AGM with ROC (Clause 109).

Accounts and Audit of accounts :

- ? There is no limit on number of subsidiaries but preparation of consolidated statement and presentation at AGM is required (Clause 117)
- ? In addition to accounting standards, auditing standards will also be mandatory [Clauses 126(3)(e) and 126(9)].
- ? Auditor can render additional services as approved by Board or Audit Committee. However, auditor cannot render services like internal audit, investment advise, management services etc. (Clause 127).
- ? Auditor liable to refund his fees to company and pay damages to company or other person suffered due to misleading or incorrect particulars made in his report, if he is convicted (Clause 130).
- ? Cost Auditor will be appointed by the Board of Directors but remuneration to be fixed by members. Approval of Central Government is not required [Clause 131(3)].

Appointment and qualification of directors :

- ? At least one director should be a person ordinarily resident in India, i.e. for at least 182 days stay in India in a calendar year [Clause 132(2)].
- ? Listed company with paid up capital above prescribed limit to have at least one-third independent directors. In case of other companies, Central Government can prescribe minimum number of independent directors [Clause 132(3)]
- ? Duties of director specified (Clause 147).
- ? A director can be disqualified for non-attendance only if he remains absent for all meetings of Board for a period of twelve months with or without obtaining leave of Board (Clause 148(b)).
- ? Directors can himself file details of his resignation to ROC. It is now made clear that company has no discretion in accepting resignation of director. It becomes effective when his resignation is received or date specified in his resignation letter, whichever is later (provision useful when there are disputes among directors) [Clause 149(1)].

Meeting of Board :

- ? Prescribed Secretarial Standards to be followed for Board and general meetings [Clause 107(10)]

Powers of Board :

- ? Casual vacancy in Board of public company to be filled at board meeting (and not by circular resolution) [Clause 142(4)].
- ? Provision made for Board meeting by video conferencing [Clause 154(2)]. Board meeting to require seven days notice except for urgent business if at least one independent director is present.
- ? Circular resolution to be noted and made part of subsequent Board meeting (Clause 156).
- ? Composition of audit committee, remuneration committee and stakeholders grievance committee has been specified in clause 158. The provisions are slightly different from earlier provisions.
- ? Stakeholders grievance committee to be formed to resolve grievances of shareholders, debentures holders and other security if they are more than 1,000 [Clause 158(12)].
- ? In case of related party transaction, disclosure, special resolution etc. is required but not Government approval (Clause 166).
- ? If there is arrangement between company and its directors in respect of acquisition of assets for consideration other than cash, prior approval in general meeting is required. In some cases, approval of holding company is also required (Clause 170).
- ? Approval of general meeting required for disposal of undertaking only if investment in such undertaking is more than 20% of net worth of company [Clause 160(1) (a)].
- ? Director or key managerial personnel shall not get involved in forward dealing in securities of the company (Clause 172).
- ? Director and key managerial personnel should not involve in insider trading on basis of non-public price sensitive information (Clause 173).
- ? MD, Whole Time Director or Manager to be appointed by Board with consent of all directors present at meeting and shall be subject to approval by special resolution in next general meeting [Clause 174(5)]. This proposal is difficult to be implemented
- ? Managing Director or Chief Executive Officer, Company Secretary and Chief Financial Officer will be 'Key managerial personnel' [Clause 2(1) (zza)]. Details of their appointment are to be entered in a register and return filed with ROC [(Clause 151)].
- ? Companies having share capital above prescribed limits should have whole time key managerial personnel (Clause 178).

Appointment and remuneration of managerial personnel :

- ? Managing Director, whole time director or Manager to be appointed with consent of all directors present in meeting for which due notice has been given with prescribed details [Clause 174(5)]. His appointment is subject to approval in general meeting of members.
- ? Members are free to decide remuneration payable to Managerial Personnel. No statutory restrictions on remuneration to managerial personnel.

Some major changes :

Some of the major changes compared to Companies Act, 1956 (as amended by Amendment Act, 2002) vide Companies Bill, 2009 are summarized below.

- ? Auditors cannot undertake certain services like accounting and book keeping, internal audit, etc.
- ? Duties of director have been codified for the first time as follows [Clause 147(2)]. Punishment provisions increased for violation by the directors
- ? Key Managerial Personnel defined and made compulsory in specified companies which includes, CEO, CFO, MD and CS. However, no qualifications have been prescribed for post of 'Key managerial personnel', except in case of company secretary. Key Managerial Personnel will be 'officer who is in default' [Clause 2(1) (zzi) (ii)].
- ? Adjudication of penalties by departmental authorities proposed
- ? New concept of small companies introduced. Small company means a company other than a public company whose paid up capital is below prescribed limit. Such 'small company' will be given various procedural relaxations by issuing notification (Clause 421).
- ? A concept of 'one person company' (OPC) has been introduced. It will have only one member [Clause 2(1) (zzk)].
- ? Provisions relating to related party transactions liberalized by deleting the requirement of Government approval in certain cases. Share holders approval required for related party transactions relating to sale / purchase / supply of goods, property, leasing of property, appointment of agents or appointment to any office or place or profit or underwriting subscription to securities. Disclosure in balance

sheet made compulsory

? The concept dormant company introduced

Provisions Relating to Auditors including Cost Auditors :

A. The provisions are more or less same as given below.

1. The provisions relating to appointment of Auditors of Govt. Companies, and other Companies covered at one place under section 123.
2. First auditors to be appointed by the Board (C & AG for Govt. Companies), failing which auditors to be appointed by share holders, (By the Board in case of Govt. Companies, failing which by the Central/ State Govt.)
3. Subsequent auditors to be appointed by share holders (By C & AG) who will hold the office till the adoption of A/c of the relevant financial year.
4. After appointment, written consent of the auditor along with a certificate is needed. ROC to be informed by the company within 15 days.
5. Casual vacancy to be filled by Board of directors (other than vacancy due to resignation, in which case share holders approval reqd). In case of a Govt. Company, the vacancy to be filled up By C & AG within 30 days, failing which by the Board.
6. The auditor appointed may be removed from his office before expiry of his term only by a special resolution.
7. The Tribunal can remove an auditor after being satisfied that auditor has acted in a fraudulent manner.
8. Only a Chartered Accountant in practice can be appointed as an auditor.

B. Provisions Relating to Cost Auditor :

1. Cost Records Compulsory in case of such class of company engaged in the Production, Processing, Manufacturing, Mining, or Infrastructural activities, as may be specified there in.
2. Central Govt. to order cost audit for companies engaged in case of above specified industries.
3. Before issuing an order, the central Govt. to consult the concerned regulatory body for companies regulated under a Special Act.
4. Only a Cost Accountant in practice can be appointed as a Cost Auditor and the appointment shall be done by the board of directors of the company.
5. However, the remuneration of the Cost Auditor shall be fixed by the members in the manner as may be prescribed.
6. The Cost Auditor to submit his report to the Board of directors of the company. The company shall within 30 days from the date of receipt of the report shall submit the same to the Central Govt.
7. The qualifications, disqualifications, rights, duties applicable to Auditors shall apply to a Cost Auditor.
8. Any default in complying with the above provisions shall be punishable with a fine which shall not be less than Rs.1 lac but which may extend upto Rs. 5 lacs to the Company and every officer of the Company in default and the defaulting Cost Auditor.

Contributed by CMA A. R. Joshi

External Commercial Borrowing - Purpose, Sources, Regulation and Benefits

External Commercial Borrowing is the most fancied three-letter word in corporate India. Borrowing of funds by the Indian corporate sector from abroad is known as External Commercial Borrowings (ECBs). ECBs cover under its umbrella commercial loans in the form of bank loans, buyers' credit, suppliers' credit, securitized instruments such as floating rate notes and fixed rate bonds etc., credit from official export credit agencies and commercial borrowings from the private sector window of Multilateral Financial Institutions. They act as a supplementary source of funding to Indian companies in addition to the Indigenous sources.

Purpose : The cost of funds in the Indian Market has been relatively higher than International Market. Thus, there is a growing tendency for Indian Business Houses to raise funds from International Markets. ECBs can be used for any purpose comprising of rupee-related expenditure as well as imports. It is mainly used for financing import of capital goods, all greenfield and new projects, modernization/expansion of existing units in the real estate and infrastructure segment. However utilization of ECB proceeds is specifically disallowed for investment in stock market and speculation in real estate.

Sources : Corporates are free to raise ECB from any internationally recognized source such as banks, export credit agencies, suppliers of equipment, foreign collaborators, foreign equity-holders, international capital markets etc. However, offers from unrecognized sources are not entertained.

Regulation : The department of Economic Affairs, Ministry of Finance, Government of India with support of Reserve Bank of India, monitors and regulates Indian firms access to global capital markets. From time to time, they announce guidelines on policies and procedures for ECB.

With a view to manage the country's external debt prudently, the policy seeks to keep an annual cap or ceiling on the total ECBs that Indian corporates can access in a year. Further it also puts restrictions on the maturity profile of the borrowings with a view to discourage very short-term borrowings. The policy also seeks to give greater priority for projects in the infrastructure and core sectors such as Power, Oil Exploration, Telecom, Railways, Roads & Bridges, Ports, Industrial Parks and Urban Infrastructure etc. and the export sector.

The External Commercial Borrowing (ECB) policy is constantly reviewed by the Government in consultation with Reserve Bank of India (RBI) to keep it in tune with the evolving macroeconomic situation, changing market conditions, sectoral requirements, the external sector and the lessons of experience.

Benefits to the borrowers : India being an emerging economy, funds are relatively costly in India than those of developed nations. A comparative study of Prime Lending Rate (PLR) and London Interbank Offer Rate (LIBOR) shows that average Indian PLR ranges from 10% to 14% while the LIBOR ranges from 1.3% to 6.3% per annum. Further, accessing international markets gives the company/borrower an opportunity to leverage a market-driven benchmark rate besides giving it a choice to choose a suitable flexible interest rate. Companies have an advantage to access a variety of instruments while tapping the international markets. Thus, companies can access strong, large & potential markets for their funding requirements. Such markets not only provide competitive rates to them but also enable them to access a variety of investors and deeper liquid market conditions. In this scenario, borrowing for Indian companies for raising fund through ECBs would be cost effective at any point of time.

CMA L. G. Toshniwal

Highlights of Direct tax code

On 13th Sep 2009 ACCA organized workshop on New Direct Tax code 2009 at Chpater hall. CMA Girish Kulkarni briefed audience about New Direct Tax code. 40 students and members attended this workshop



The direct tax code was released for discussion on Aug 13 2009, with a view of simplicity and minimizing litigation also to broaden tax base. Direct tax code will replace current Income tax Act, Wealth Tax Act

General

The Direct Tax Code 2009 will come in to force on April 1 2011, if enacted.

Previous year and Assessment year concept will be abolished and only Financial year concept is proposed.

Income has been proposed to be classified in two major groups.

a. Income from ordinary source. **b.** Income from Special source.

Status of "Resident and ordinary resident" will be abolished and only status of "Resident" and "non resident" will continue.

Foreign company may be treated as resident in India if its control and management is situated even partly in India

Govt. assesses is also covered in direct tax code

Tax changes

New beneficial tax slabs for individuals are proposed to be introduced and Peak rate of 30 percent tax rate will be applicable on income exceeding INR 25 lakhs

No deduction for HRA, medical reimbursement, LTA is proposed under new direct tax code.

For Individual asseesee contribution up to INR 3 lakhs to any account with permitted saving is allowed as deduction.

Concept of Exempt Exempt Tax (EET) is introduced where as roll over will be exempt from tax, in place of Exempt Exempt Exempt (EEE) on saving of individual.

Income Tax for companies is proposed at 25%.

Change is proposed in calculation of MAT. MAT to be charged @ 2% on gross asset (for banking Co @ 0.25%)

Major changes proposed in Depreciation slab.

Standard deduction is reduced from 30 % to 20% for income from House property, also deduction will not be available for housing loan repayment of self occupied property (Principle as well as interest).

Asset which is held for more than one year will be treated as long term asset and indexation base for long term asset is changed from April 1981 to April 2000.

Security transaction tax is proposed to be abolished.

Roll over of capital gain is allowed with certain restrictions like amount withdrawal from allowed deposit account should be invested within one month.

Advance pricing agreement (APA) mechanism has been introduced.

No bifurcation in Short and long term capital gain, and will be taxed at the same rate.

Carry forward of loss is not allowed if return is not filed by due date.

Under new direct tax code Individuals, HUF and Private Discretionary Trusts are liable to wealth tax.

Basic exemption slab has enhanced to 50 crores and wealth tax will be chargeable at the rate 0.25% of net wealth.

Contributed by CMA Hemant Ghiya



Preservation of Records under Indian Laws

Companies Act, 1956

- A company is required to maintain its books of account and vouchers for a period of 8 years immediately preceding the current year.
- Licensed Companies u/s 25 of The Companies Act, 1956 is required to maintain its books of account and vouchers for a period of not less than 4 years.
- The books and papers of the Amalgamated/Transferor Company must not be disposed of without the prior permission of the Central Government.
- The books and papers of a company which has been wound-up and of its liquidator shall not be destroyed for a period of 5 years from the date of its dissolution. They may be destroyed earlier with prior Central Government permission.
- Every company (not being an NBFC) accepting public deposits must maintain a Register of Deposits for 8 calendar years from the financial year in which the latest entry is made in the Register.
- The Register and Index of Members must be maintained permanently.
- The Register and Index of Debenture-Holders must be maintained for 15 years after the redemption of debentures.
- The copies of all Annual Returns and Certificates annexed thereto must be maintained for 8 years from date of filing with the ROC.

NBFC Directions

- Every NBFC accepting public deposits must maintain a Register of Deposits for each branch and a consolidated Register for 8 calendar years following the financial year in which the latest repayment /renewal entry is made in the Register.

Income-tax Act, 1961

- Assesseees are required to preserve the specific books of account for a period of 6 years from the end of the relevant assessment year, i.e., for a total period of 8 previous years. Thus, accounts must be maintained for PY 2002-03 and onwards and accounts up to 31st March, 2002 (PY 2001-02) need not be maintained for Income-tax purposes.
- Transfer Pricing documents and Information specified under Rule 10 D must be maintained for a period of 8 years from the end of the relevant assessment year, i.e., for a total period of 10 previous years.

Central Excise :

- Daily stock Account of goods produced must be maintained for 5 years immediately after the financial year to which such records pertain.

Service Tax :

- Records maintained under various other laws in force from time to time would be acceptable.

SEBI Regulations :

- Under the SEBI Regulations for Stock Brokers, Merchant Bankers, Portfolio Managers, Underwriters, Debentures Trustees, FIIs, Custodian of Securities and Depository Participants the Records prescribed by SEBI under relevant Regulations must be maintained for a minimum period of 5 years.
- Under the SEBI Regulations for Venture Capital Funds and Mutual Funds the records prescribed by SEBI under relevant Regulations must be maintained for a minimum period of 8 years.
- SEBI regulations for Registrar & Transfer Agents and Bankers to an Issue the records prescribed by SEBI under relevant Regulations must be maintained for a minimum period of 3 years.

ICAI- Council's decision of 1957

- CAs should preserve records relating to audit and other work done by them, routine correspondence and other papers for a minimum period of 10 years.

Contributed by CMA Mahesh Avhad

Useful Websites

www.bloomberg.com	www.euromoney.com
www.livemint.com	
http://www.sap.com/asia/services/education/schedule/schedule_IN.htm	
http://www.iasplus.com/resource/ref.htm	
www.ifrs.com	www.ifrsnews.com
www.kpmgifsinsitute.com	www.oanda.com
www.iasb.org	



BUYERS' CREDIT

We will have look at “**Import Financing**” or well recognized as “**Buyers' Credit Loans**”. In this write up we will take you through

1. What is buyers' credit and regulations governing the same
2. Procedure and benefits

Meaning and regulations governing buyers' credit:

Global players have edge over Indian manufacturers in terms of lower interest rate outside India. This risk can be minimized to some extent with the usage of “Buyers/suppliers' credit” for players with overseas aspirations in terms of import/export. Lower interest rates globally is an opportunity for Indian companies to source global funds through foreign currency options like “Buyers/suppliers' credit”

With liberalization and rationalization initiatives from RBI, relaxations are provided in terms of enhanced limits for current account transactions for easier drawal of foreign currency by individuals and corporates in India. Also in capital account there are relaxations both for short and long term borrowings.

Buyers' credit is a short-term loan for payment of imports into India which is arranged by the importer from a bank or financial institution outside India for maturity of less than three years. And in case of suppliers' credits are those short-term loans where the credit for imports into India is extended by the overseas supplier for a period of more than six months but less than three years. It may be noted that buyers' credit and suppliers' credit for three years and above come under the category of External Commercial Borrowings (ECB) which are governed by ECB guidelines.

Authorized dealers can approve short-term credit proposal like buyers' or suppliers' credit subject to compliance with following conditions.

1. The credit is extended for a period of less than one year from date of shipment for imports permissible under current Foreign trade policy and for more than one year to three years for imports classified as capital imports by DGFT;
2. The amount of credit does not exceed \$20 million, per import transaction;
3. The 'all-in-cost' per annum, payable for the credit does not exceed Libor +200 basis points for credit up to one year for the currency of the credit or applicable benchmark.

Procedure:

1. Buyers' credit can be extended against payment terms at sight or usance (the term usance refers to payment on deferred terms, as mutually agreed upon by the supplier and the buyer).
2. the credit can be raised irrespective of whether the import takes place under an arrangement of letter of credit (LC) issued by a bank in India or whether the supplier sends the bills on collection basis.
3. The foreign lender, generally a foreign office/correspondent of the importer's bank in India, would raise a loan account in the name of the buyer in its books on the strength of a guarantee, letter of undertaking (LoU) or a letter of comfort (LoC) from the importer's bank in India.
4. Supplier gets the payment of due date from foreign lender on the presentation of documents
5. Foreign banks are assured of payment against LoU/LoC from the importer's bank and payments happen on these extended due dates to foreign lender.

Cost benefit:

Buyer's credit involves payout in terms of bank service fee, interest cost, withholding tax since interest is payable outside India, forward premiums for hedging the outflow on future date. Following calculations will help us to evaluate the funding proposal against INR loans.

Particulars	6M Tenor	12M Tenor
USD Libor	2.96 %	3.27 %
Bank Spread	0.50 %	0.50 %
Bank Service Fee	0.25 %	0.25 %
Withholding Tax @ 10 %	0.35 %	0.40 %
Forward Premiums	2.09 %	1.74 %
Total Risk free hedged Cost	6.15 %	6.16 %
INR Interest Rate	7.15 %	7.50 %
Cost Savings (annualised)	1.00 %	1.34 %

Contributed by CMA Bhushan Dhule

Operational Issues :

1. Banks are not very keen to promote usage of these products as there is thin commission and it eats away their credit portfolio which brings them nice returns.
2. As per the guidelines (as reiterated by the RBI master circular 07/2009-10 dated July 01, 2009), ADs shall not issue guarantee in favour of overseas lender on behalf of their importer constituent for trade credit without the approval of the RBI. This result is small delays and even bank looks for sizable transaction to make arrangement for buyer's credit.

Considering low interest rates globally it is really useful for the Indian corporates and especially during the period of hedge discounting. It is more cost effective.

Role of State Government in Industrial Development:

We frequently come across the comments that certain state (for example Gujarat) is most developed and some other state is most backward for industrial development. Though this stage depends upon many natural and demographic factors but certainly apart from that on the impetus given by State Governments in long run. Central Govt is helping most backward states by giving income tax and excise holidays but progress depends upon initiatives of that State Government. Declaration of Special Economic Zones (SEZs), bringing heavy industries in public sector, building of rails, highway, ports and aerodromes etc. infrastructure, allowing MNCs and FIIs are exhibits of Center's commitment for industrialization. In spite of this State Government Role is more important to ground these initiatives.

Maharashtra is one of the most industrialized states in the Country. 40% population of Maharashtra resides in cities which mostly depend upon Industrial and Commercial Activities. Industrial Development of Maharashtra is lopsided mainly concentrated in the areas of golden triangle: i.e. Mumbai- Pune Nasik.

In order to encourage the dispersal of industries to the less developed areas Maharashtra Govt. has been giving package schemes of incentives since 1964 for New/Expansion units. The state has declared policy on industrial, investment and infrastructure to ensure sustained industrial growth through innovative initiatives for development of key potential sectors and further improving the conducive industrial climate in the state. The policy envisage grant of fiscal incentives to achieve higher and sustainable economic growth with emphasis on balanced regional development (unfortunately not succeeded) and employment generation.

The areas have been classified depending on the stage of development as Group A, B, C, D, D+ and No Industry District. Mumbai and Pune are developed areas included in Group A and Gadchiroli is No Industry District. Except Aurangabad and Nagpur cities, all talukas of these regions and Amaravati region are in D+ group indicating these regions as most backward regions in the state.

The state government's recent scheme of package incentive is PSI 2007. Earlier scheme was PSI 2001. Prior to PSI 2007 scheme, the Govt. was allowing either exemption of state sale tax or deferral of the same as zero percent loan payable after 6 years (or so) in installments. PSI 2007 offer Industrial Promotion subsidy (IPS) linked to capital investment and VAT paid for a period of 5 to 10 years depending on Group as above. There are other benefits such as exemption of Electrical Duty, waiver of stamp duty, royalty, octroi, entry tax etc.

There are also special incentives as subsidies to micro and small enterprises such as for Interest, Technology Upgradation, Quality Certification, Cleaner Production and Patent Registration.

Government also gives special incentives to Low Human Development districts (e.g. Jalna, Dhule, Nanded, etc. 10 Nos) for employing 75 % local persons for payment to PF and ESIC.

The Government has special consideration for Mega Projects. (Investment more than 500 crores) and offer customized and special /extra incentives on case to case basis. Such special incentives e.g. allotting land at nominal prices, waiver of state taxes for long periods etc. are given by many state governments competing with each other on quantum and type. The fall out of such competition is shifting of Nano from West Bengal to Maharashtra. We are also romancing for "Nano" but were declared out by TATA just like Rakhi Sawant.

Contributed by CMA S. R. Pimpale

***"If a man empties his purse into his head, no one can take it away from him.
An investment in knowledge always pays the best interest."***

.....Benjamin Franklin

Suggested reading for inspiration:

1.	How To Win Friends and Influence the People	:	Dale Carnegie
2.	How to Stop Worrying and Start Living	:	Dale Carnegie
3.	Think and Grow Rich	:	Napoleon Hill
4.	You Can Win	:	Shiv Khera
5.	Leaving with Honou	:	Shiv Khera
6.	Mission India	:	Dr. A.P.J. Abdul Kalam
7.	Immortal speeches of Vivekananda	:	Dutta
8.	Raj Yoga/Bhakti Yoga/Jnana Yoga/Karma Yoga-	:	Vivekananda
9.	Pranayama and Yoga-	:	Ramdev Baba
10.	My Experiments with Truth	:	Mahatma Gandhi

On 17th Sep 2009 a warm welcome of final pass students was organized. Senior members shared their experiences and provided guidance for their career.

Welcome of New Cost Accountants



ICWA Complete Pass - June 2009 Exam.

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3.	CHINE VIJAY BAHUPATIL
4.	DANDGAVAL BHAVANA RAMAKANT
5.	KHADILKAR KETKI ASHOK
6.	NAIKNAWARE MAHARUDRA
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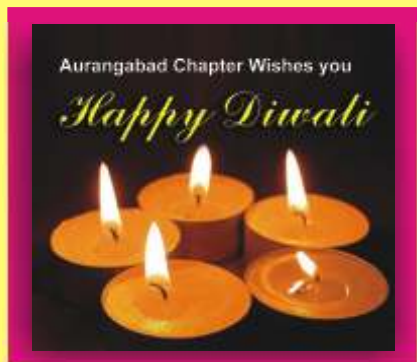
Sr.	Students Name
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12.	GANDHI SAYURIAJIT
13.	KULKARNI VAIBHAV VIDYADHAR
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