

## *From the Desk of Chairman*



Dear Professional colleagues,

The New year has begun with many changes and noticeable are change of Leadership in the Ministry of Corporate Affairs, RBI measures to tame inflation and fall noticed by stock markets in spite of improved economic scenario and sustenance of about 8.5 % GDP growth rate in India. Globally, the economic recovery is showing signs of strengthening. The increase in capital spending by US corporates, stabilisation of Euro zone concerns, rise in 10 year US treasuries hinting at inherent rise in new investments etc. The international events like non violent change of leadership in Egypt have reduced uncertainties for oil sector as well as currency markets.

The fall of Sensex by about 2000 points in a month has not only become dampner for IPOs and FPOs of many companies in the pipeline but also exposed again the fragile dependence on foreign funds for equity market support ! The outflow by FIIs in Jan-Feb. has hit the Rupee/ Dollar rate adversely. The fall of Rupee by about 3 % to Rs. 45.75 as of last week can further worsen the rising oil import bill, which in turn can lead to higher fuel prices and a source of worry for further inflation ! The curious cycle is really perplexing and I hope the initiatives by RBI through credit policy in Jan. 2011 by increasing Repo and Reverse Repo rates by 0.25 % will help in taming the threats to industry on account of high inflation. In spite of an excellent previous monsoon season, the unabated and now seemingly uncontrollable inflation of food prices is a concern for every common man and professional analysis is needed to examine its root cause, which may be caused by various factors like change in fertile land usage from agriculture to industrial/ residential purposes, change in crop preferences due to differentials in the financial yields by end agriculture produces, migration of labour from uncertain agriculture sector to a consistent industrial wage pattern etc. The analysis is imminent and to be done with non political objectives to ensure long- term solutions of food products at reasonable price for the large population base, which is ever growing, surely faster than the pace of food products growth.

This month, all eyes are set on the new initiatives and policies expected in the Budget 2011. The agriculture sector needs growth stimulants to augment food products output increase to contain food prices spirals and hardship to public at large.

The savings rate and capital formation are in the positive direction to maintain our GDP growth plans. The first nine months of the current fiscal witnessed a mobilisation through debt (bonds) on private placement basis of Rs.1,44,693 crores, showing a significant increase of 18 per cent over Rs. 1,22,167 crores mobilised in the corresponding period of the previous year.

On the professional turf, NIRC organised a workshop on Cost Accounting Standards. Mr. Balwinder Singh, Central Council Member of ICWAI and a Member of the Cost accounting Standards Board was the keynote speaker. Other Regional Council Members present along with me made the session very interactive and many practical problems raised by members were discussed.

With the growing shift from management accounting to Enterprise wide Total cost and Resource management, it is essential that each organisation has a robust system of cost identification, accounting, analysis and reporting and management thereof. Therefore, strong need has been felt to have a uniformity in Cost Accounting Standards, in line with the Global best practices. With this background, an Expert Group was set up by the Gol in 2008. The Group has recommended that the Cost Accounting should move

## From the Desk of Chairman

from Rule based to Principles based standards and practices, for which ICWAI has been expected to come out with Cost Accounting Standards at the earliest.

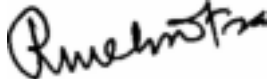
The Cost Accounting Standards have been issued / being issued by the Institute of Cost & Works Accountants of India with an attempt to standardize the Cost Accounting practices among businesses and Governance. This will, in turn, standardize the practices of drawing general purpose cost statements and standardize the Cost accounting practices in various entities.

Coming to the implementation stage, the ICWAI has made 12 CASs mandatory for following by Cost Auditors, effective from April 1, 2010. ICWAI has an ambitious plan to issue 39 CASs in due course. Considering the need to upgrade skill on this area, a workshop was organised on 5<sup>th</sup> Feb. 2011 at NIRC, which received overwhelming support from members. This was also an opportunity to get feedback from members in practical challenges faced while implementing the same in various industries.

Another important programme at NIRC was a meet with Principals of leading schools of Delhi, to share with them about the details of ICWAI course and opportunities for students in this profession. The response was good and interactive. Many schools desired that such programme be held for their students in the next academic session. NIRC will take up necessary steps in this regard.

I am happy to note that our various Chapters have stepped up the number of professional programmes being taken up and I hope our members in various parts of North India are getting advantage from the same as well as increasing industry interaction.

With warm regards,



( Rajeev Mehrotra )  
Chairman.

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## SECRETARY'S COMMUNIQUE



Dear Professional Colleagues,

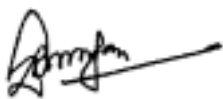
Now the season of Spring has come as the winter is fading out. The spring season always sets in with great hope and cheers. It also brings along energy to all of us on professional and personal fronts.

Shri Murli Deora has taken charge as Hon'ble Minister and Shri D.K.Mittal as Secretary in the Ministry of Corporate Affairs. On behalf of NIRC, we extend very warm welcome to Hon'ble Minister of Corporate Affairs and Secretary. We wish that our profession will get new lights and directions and shall be immensely benefited by the experience and guidance of new Minister and Secretary.

Recently a programme was organized jointly by the Noida Chapter of Cost Accountants and Company Secretaries on the topic of "Corporate Social Responsibility"(CSR). It was an honour to interact with the members of Noida Chapter on this occasion. In this programme, the speakers emphasized that corporate world should not take CSR as philanthropy but as a corporate objective. There should also be a well-defined policy for CSR which should be properly visible, transparent and measurable. It is in the interest of the corporate world to give focused approach on CSR and it should be appropriately disclosed in their Annual Reports. There are already voluntary guidelines regarding CSR for Public Sector Enterprises whereby they are required to spend some amount on CSR every year. If recent news items in The Economic Times are to be believed, the Department of Public Enterprises is planning to bring a change in the law to make it mandatory wherein about 2% of the profits are to be apportioned for CSR activities annually. Another important aspect regarding CSR is that amount should be genuinely spent for this purpose and should not go merely as a formality or eyewash. Amounts apportioned for CSR should be spent for the benefit of humanity, surroundings, environment protection, human rights and other ethical purposes.

Another important programme was organized in NIRC on 5<sup>th</sup> February, 2011 on the topic of "Cost Accounting Standards"(CAS). Shri Balwinder Singh, Central Council Member was speaker in this programme. The programme was very well responded by the members and it was live, participative and attractive. In the era of IFRS where all the accounting standards are likely to be implemented on global basis, it is in the interest of our members also to comply with the existing CAS. The Institute has already made it mandatory with effect from 01.04.2010 for cost auditors to certify that companies are maintaining cost accounting statements/records complying with laid down CAS and if there are any deviations, these are to be stated in the report. In the long run, to make CAS effective, it is necessary that Central Government includes CAS as a part of Companies Act so as to make them legally applicable. So far 12 number of CASs have been introduced by Institute and in total, it is planning to cover more areas to make them 39. Practically CAS do not cover any new concepts and principles of cost accounting but in fact they are formed on the basis of best practices available and to facilitate standardization of the process of inter-company comparison. CAS may facilitate in the areas of fixation of tariffs, minimum support price and cost based prices particularly for essential commodities.

I once again convey best wishes and solicit whole-hearted support from members for adding values to the activities of NIRC.



(B L Jain)  
Secretary - cum - Treasurer

# ACTIVITY REPORT

## NIRC ACTIVITIES

### Principals' Meet

29<sup>th</sup> January, 2011

With the objective to bring greater awareness about the CMA profession amongst the Educational fraternity, NIRC of ICWAI organized a Principals' Meet at ICWAI Bhawan, New Delhi. Principals/Heads of Commerce from renowned Schools across Delhi attended the Meet.

The list of participants included representatives from Air Force Bal Bharti, Lodi Road, D.P.S, Mathura Road, Army Public School, Dhaula Kuan, Indraprastha College for Women, Salwan Public School, G.D. Salwan Public School, Vidya Bhawan, Kendriya Vidyalaya, Shanti Gyan Intl. Sr. Sec School, Guru Harkrishan Public School etc.

Mr. Rajeev Mehrotra, Chairman-NIRC along with Mr. B.L. Jain, Secretary & Treasurer and Mr. Vijender Sharma, Member-NIRC gave a warm welcome to the Principals and Teachers. They shared brief introductions amongst themselves over Tea about the ICWAI.

Mr. Mehrotra took the participants through a presentation and briefed them about the Institute right from inception, the coverage and functions of Northern India Regional Council, a step-by-step growth path to undergo CWA course and progress in the profession. He also discussed some of the key USPs of the way curriculum has been designed and how subjects have been mapped and aligned from time to time to the needs of the Industry. He emphasized that education is imparted to students through a mix of theoretical inputs and practical exposure through Training Programmes, Industrial Visits, Group Discussions and Modular Training Sessions.

He threw light on the various career avenues that could be explored by the Cost Accountants and some of the key emerging areas for CMAs. He discussed in detail the role of Cost and Management Accountants in the Economy and illustrated how Senior Members of the Institute are occupying key positions in Public Sector,

Private Sector, MNCs and Firms and are today the leading lights of the profession.

He also mentioned the Placement Cell Activities and some of the recruiters of Cost Accountants in past.

The session was quite lively with interesting questions coming up time and again, which were responded to the satisfaction by Mr. Mehrotra, Chairman, Mr. B.L. Jain, Secretary & Treasurer, Mr. Vijender Sharma, Council Member-NIRC and Mr. Ravi Sahni, Member of the Institute.

Many schools requested for a presentation in their schools before the students in the coming session.

The Meet received a good response from participants arousing a keen interest amongst Principals to explore the profession and an intention to spread the word amongst students of their School.

### Modular Training Programme

January, 2011

36<sup>th</sup> and 37<sup>th</sup> Modular Training Programme- Day and Evening Batches were successfully conducted for Final Students to make them abreast of some of the Practical Areas of relevance to the Corporate Life like Role of Finance in Trading, Cost Accounting Standards, Art of Public Speaking, Corporate Governance, Capital Market etc.

The 36<sup>th</sup> Modular Programme was conducted from 16<sup>th</sup> January-30<sup>th</sup> January, 2011 and the 37<sup>th</sup> Modular Training Programme was conducted from 18<sup>th</sup> January to 2<sup>nd</sup> February, 2011.

Experienced Faculty members from Industry illustrated the subjects through insightful knowledge sharing sessions coupled with practical experiences shared by them.

### Seminar on Cost Accounting Standards

5<sup>th</sup> February, 2011

Continuing its practice of updating its members with professional developments in the CMA fraternity, NIRC of ICWAI organized a Seminar on Cost Accounting Standards on 5<sup>th</sup> February, 2011.

The Seminar was inaugurated by Mr. Rajeev Mehrotra, Chairman, Mr. Balwinder Singh, CCM, ICWAI and keynote Speaker, Mr. B.L. Jain, Secretary & Treasurer, Mr. Sanjay Gupta and Mr. Vijender Sharma, Council Members-NIRC.

Mr. B.L. Jain, Secretary & Treasurer, NIRC of ICWAI welcomed the participants gathered at the forum and briefed them about the theme of the Seminar. Dr. Ashok Aggarwal, Past CCM-ICWAI welcomed the keynote Speaker Mr. Balwinder Singh, CCM, ICWAI with a bouquet.

Mr. Sanjay Gupta, Member-NIRC addressed the audience and thanked them for their regular participation in Professional Development Programmes organized by the Institute.

Mr. Rajeev Mehrotra, Chairman-NIRC stressed on the growing relevance of Cost Accounting Standards and how the Seminar has been organized for the benefit of members getting feedback of members on the 12 CASs which have to be observed by Cost Accountants w.e.f 1/4/2010.

Mr. Balwinder Singh, CCM, ICWAI was the Keynote Speaker at the Seminar. He said that there is a gradual shift from Financial Accounting to Enterprise Accounting, from rule-based to principle based Standards. He said it was the need for uniformity and consistency in classification & assignment of cost to product and services, which led the way for Cost Accounting Standards.

He spoke about the inception of CAS Board set up by ICWA in 2001 and explained some of the key developments in the field of Cost Accounting Standards since then.

He discussed the broad heads covered under the Cost Accounting Standards including the Objectives, Scope of Standard, Definitions, Principles of Measurement, Assignment of Cost, Prescribed format of presentation and Disclosure requirements.

He made a note that 12 Cost Accounting Standards have been issued by ICWAI till date and few are still in pipeline. These standards are compulsory for Practicing Cost Accountants as of now. He also explained the concept of Carbon Credit and delved into the intricacies of each of the Standards.

Mr. Subhash Aggarwal, Past Chairman-NIRC of ICWAI presented a memento to Mr. Balwinder Singh, CCM, ICWAI as a token of memories.

Mr. Vijender Sharma, Council Member-NIRC presented a vote of thanks to all participants and thanked Mr. Singh for his insightful presentation.

## **ALLHABAD CHAPTER OF COST ACCOUNTANTS**

### **62<sup>nd</sup> Republic Day Celebrations**

**26<sup>th</sup> January, 2011**

The 62<sup>nd</sup> Republic Day was celebrated with great enthusiasm by Allahabad Chapter of Cost Accountants at historical Chandra Shekhar Azad Park, Allahabad. The National Flag was hoisted by Mr. Indrasen Singh, Chairman, ACCA and he briefed about importance of celebration of Republic Day. Speaking on the occasion, Prof. Kiran Kumar narrated the contemporary need of ethical behavior of all the citizens, especially in youth. Ex-Chairman, ACCA, Mr. S. M. Anwar Hassan told that in present economic scenario, Cost Accountants can play a vital role to grow the economy through enterprise governance. Mr. Jawahar Lal, Vice Chairman, ACCA, Mr. Naresh Gupta, Joint Secretary, ACCA and Mr. G.P. Gupta also shared their views on the occasion. A large number of students and Members of the Institute participated in the above programme. Vote of thanks was given by Mr. Navin Chandra, Secretary, ACCA. The celebration ended with a guava party.

### **Study Circle Meeting**

**8<sup>th</sup> February, 2011**

Study circle meeting of members of Allahabad Chapter of Cost Accountants was held on 08.2.2011 at Colonelganj Inter college, Allahabad. Mr. Saurabh Srivastava, FICWA and DGM -IRCON spoke on the topic of "The main steps in preparing the project Estimate". He told that project estimate commences with defining the project covering all monetary, technical and non-monetary aspects including time period, major risk factors, review timing etc. Mr. Indrasen Singh, Chairman of the Chapter, while introducing the topic, emphasized on need of introducing Costing system on a collaborative and consultative process involving among others the

offices of the large medium and small projects alike of the country.

Mr. Naresh Gupta, Joint Secretary & Treasurer of Allahabad Chapter talked about the overview of the Bank Guarantee Charges, Insurance Charges, Maintenance period charges and Provision for contingencies and LD with its difference with bill reduction clause.

Acharya Dr. Kiran Kumar hoped that this discussion would provide members the background knowledge about the project entity and help focus on project estimates.

Mr. Jawaharlal, Vice Chairman of the Chapter spoke about supervision and payment for consultancy services. Mr. S.M. Anwar Hasan, Mr. Manas Bakshi & Mr. Ashoke Agrahari participated in subsequent discussions. A large number of students also attended the Seminar. Mr. Naveen Chandra, Secretary of the Chapter summed up the proceedings and proposed the vote of thanks which was followed by high tea.

## **JAIPUR CHAPTER OF COST ACCOUNTANTS**

### **India Corporate Week 19<sup>th</sup> December, 2010**

Jaipur Chapter of The Institute of Cost & Works Accountants of India (ICWAI) hosted a Seminar on Investors Awareness on 19<sup>th</sup> December, 2010 in observance of India Corporate Week 2010 at the Chapter premises at Jhalana Doongri, Jaipur. The Seminar was inaugurated by Mr. S.P. Kumar, Registrar of Companies, Rajasthan. The Theme of the Seminar was "Sustainable Business".

At the outset, Mr. D.K. Gupta- Chairman, Jaipur Chapter welcomed the dignitaries and participants of the Seminar and briefly narrated the activities of the Chapter and usefulness of the Seminar. Mr. Arvind Roongta, Investment Consultant & Mr. Sandeep Jain, Director, Trade Swift Broking Pvt. Ltd., the Key Speakers of first technical session shared their views on the practical aspects in primary as well as secondary capital market and also gave tips for wealth maximization by small investors. It was a surprise for participants when

it was informed that those who had invested Rs. 10000/- in shares of Wipro in 1980, has now become Rs.450 crores. Regular investment in Pension Plans and SIP (Systematic Investment Plan) is considered to be a sign of wise Investor.

The key speaker of Second Technical session was Mr. Jai Singh Kothari, Senior Economic Analyst & Editor of Nafa Nuksan. He explained in detail the role of Capital Market and briefed about expected future economical changes in Global Economy.

The Chief Guest of the Seminar Mr. S.P. Kumar explained the Role of Ministry of Corporate Affairs & various steps being taken by the Govt. for protection of Investors Interest.

Secretary of the Chapter Mr. Sanjay Kumar Jain thanked all the key speakers and participants. The programme was conducted by Dr. Girish Goyal, Senior Member & Faculty.

### **REPUBLIC DAY CELEBRATION**

**26<sup>th</sup> January, 2011**

Jaipur Chapter of Cost Accountants celebrated the 62<sup>nd</sup> Republic Day function on 26<sup>th</sup> January 2011 at Chapter premises which was attended by a large number of members, faculties and students.

Mr. D.K. Gupta, Chairman & Mr. Sanjay Kumar Jain, Secretary, Jaipur Chapter unfurled the National Flag. On this occasion, Mr. D.K. Gupta welcomed the guests and addressed the gathering detailing about various activities and future plans of the Chapter. He also sought suggestions from the members for improvements. At the end of celebration, Mr. Sanjay Kumar Jain, Secretary of the Chapter presented the vote of thanks to the members, faculties and students present at the function.

### **Inauguration of Oral Coaching Classes and Talk on "Personal & Professional Excellence"**

**5<sup>th</sup> February, 2011**

The January - June 2011 session of Oral Coaching Classes for Foundation, Intermediate, Final and CAT course was formally inaugurated by Dr. Satish Kumar Batra, Dy. Director, Bhartiya Vidya Bhawan, Jaipur Centre on 5<sup>th</sup> February, 2011. Dr. Ashok Jain, Regional Manager,

Oriental Insurance Company was the Guest of Honour, Mr. D.K. Gupta, Chairman of the Chapter welcomed the Chief Guest and gave details of the coaching and other extra curricular activities being performed by the chapter. He also congratulated the students on taking the right decision to join the course of ICWAI. Dr. Satish Kumar Batra, Chief Guest at the occasion also gave a talk on "Personal & Professional Excellence" through Power point presentation. In his talk, Dr. Batra emphasized that human values are equally important besides the studies for successful career. He explained in detail, the seven valuable tips to the students for achieving success in their career which are - Goal clarity, Firm Determination & Discipline, Action Plan, Organised Working, Time Management, Presentation & Communication Skills & maintaining relations. Dr. Ashok Jain, Guest of Honour explained the various opportunities available in CWA profession and recognitions being granted by the Govt. Shri P.D. Agrawal, Director of Coaching conducted the programme, Mr.Sanjay Kumar Jain, Secretary of the Chapter presented vote of thanks. A large number of students and faculties were present on this occasion.

## **LUCKNOW CHAPTER OF COST ACCOUNTANTS**

### **Coaching Session Inaugural Function 15<sup>th</sup> January, 2011**

The Inaugural function of ICWAI course for the session starting from Jan 11 was held on 15<sup>th</sup> Jan 2011 at ICWAI Bhawan, Gomti Nagar, Lucknow. The function was attended by approx. 150 students, guardians, Cost Accountants, and Faculty members of the Institute. The session was inaugurated by Mr. Sudhanshu Dwivedi, DGM(F&A), UPPCL and past chairman of LCCA. In his inaugural speech Mr. Sudhanshu Dwivedi said that Cost Accountants are the fittest Accounts and Finance professional in the changed paradigms of the business with their strong analytical and technical capabilities, Cost accountants are preferred by most of organizations for Cost control & Management, Accounting, Finance, strategic financial planning and other managerial functions. Mr. Dwivedi, Mr. Saurabh Srivasata, DGM(F&A), IRCON and past Chairman, LCCA were the

guests of honour. He shared his experience of being a Cost Accountant. Expressing his full satisfaction with the profession, he congratulated the students for choosing the rewarding career. Meritorious students were honoured by various awards. Two new awards were instituted from this session namely T.R. Saxena Award for getting highest marks in Information technology paper in Intermediate and SM Agrawal Award for getting highest marks in Auditing paper.

Earlier, Mr. O.P Saxena, Chairman LCCA welcomed all dignitaries, students and faculty members. He categorically told the students that it is the hard work that pays in the profession of Management Accountants. He congratulated the prize winners, students of previous session and charged them to keep the highest traditions of Cost Accountants in their professional life and to perform professional obligations with dignity and ethics.

Mr. Aman Malviya, Executive Committee member-LCCA while briefing on the Institute and the profession of Cost Accountants told that Cost Accountants in India are known as Management Accountants world wide, This profession offers job opportunities in Govt, Public sector, Private sector, NGOs, and consultancy firms. Members can opt for practicing as Cost Accountant.

Mr. Zia Abbas Rizvi, Director(Studies) briefed that Lucknow Chapter offers registration, oral coaching, computer training and practical training facility to the ICWAI students. It regularly organizes workshop/seminars for updating professional knowledge of members and students as core competency of this profession is expert knowledge of latest developments in economic and business scenario.

Mr. Mahendra Singh, Vice Chairman LCCA, briefed the students on practicing opportunities. He said that there are vast opportunities in practice, both statutory and non-statutory after passing this course but it requires a little more efforts on their part.

Mr. Vikas Srivastava, Treasurer of LCCA proposed the vote of thanks. He congratulated the award winners and wished the same expectation from the new students. Program was concluded with recital of national anthem. He thanked the Chief Guest and Guest of Honour and all present for sparing their valuable

time. He thanked Mr. Amit Agrawal, Cost Accountant and Chartered Accountant, and Mr. OP Saxena, Chairman LCCA for starting new awards in the name of their father.

### **IFRS & Corporate Governance 23<sup>rd</sup> January, 2011**

One day program on IFRS and Corporate governance was organized by LCCA in association with National Foundation of Corporate Governance (NFGC) on 23<sup>rd</sup> Jan 2011 at Hotel Dayal Paradise. The program was conducted by Mr. Eish Taneja, a renowned IFRS training and practicing Chartered Accountant based at Delhi. The training was attended by large number of Members and a number of Final students. Mr Taneja deliberated in detail on practical aspects of IFRS, convergence issue and step-by-step implementation of IFRS. He informed that IFRS will be mandatory w.e.f 1<sup>st</sup> April 2011 for the corporate in a phased manner.

The training was started with the welcome address by Mr. O. P Saxena, Chairman-LCCA. He said that there is no escape for Accounts professional from IFRS and it is the right time to update the professional knowledge in this area. Later while deliberating on Corporate Governance, he said that Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. The interest of stakeholders such as shareholders (minorities), the board of directors, executives, employees, customers, creditors, suppliers, and the community at large is protected by legal framework as well as by ethical and honest practices of controlling stake holders.

The training was very well attended and appreciated by the members besides Mr. Mahendra Singh, Vice Chairman, Mr. Vikas Srivastava, Treasurer, Mr. Zia Abbas Rizvi, Mr. Sunil Singh, Mrs. Anjana Chadha and all Committee members of LCCA. The program was concluded over vote of thanks proposed by Mr. Shailendra Paliwal, Secretary-LCCA and presenting memento to Mr. Eish Taneja by Mr. CJ Tikku, Cost Accountant and AGM-SBI and Mr. Shahnawaz Khan, Cost Consultant based at Dubai.

### **62<sup>nd</sup> Republic Day Celebrations 26<sup>th</sup> Jan, 2011**

62<sup>nd</sup> Republic Day was celebrated in the Chapter on 26<sup>th</sup> Jan 2011. On this occasion, Mr. Sudhanshu Dwivedi, DGM (F&A), UPPCL was the Chief Guest. Mr. OP Saxena, Chairman-LCCA hoisted the national flag at 10.00 AM at Chapter. On this occasion, Mr. Saxena congratulated the members/students present in the celebrations, he said that most of the management institutes teach students how to use available resource to achieve goals but how to gather the very resources to start a business is not taught. He categorically told that during this year Luknow chapter will organize programs to give tips to start new ventures to the ICWAI students.

On this occasion, Chief Guest Mr. Shudhanshu Dwivedi said before becoming a good professional, it is most important to be good human being with good moral and ethical values. He reiterated that programs aiming entrepreneur development should be started by the Institute and the Chapter as Cost Accountants will prove successful entrepreneurs if prompted properly.

The program was attended by Mr. Mahendra Singh, Vice Chairman, Mr. Shailendra Paliwal, Secretary, Mr. Vikas Srivastava, Treasurer, Mr. Zia Abbas Rizvi, Director (Studies), Mr. Vinay Srivastava, Member, large number of students and staff of the chapter.

### **Panel Discussion on Corporate Governance in UK- Lessons for India 5<sup>th</sup> Feb 2011**

Panel Discussion on Corporate Governance in UK- Lessons for India was held at Ram Manohar Lohia, National Law University , Kanpur Road, Lucknow on 5<sup>th</sup> Feb 2011. Prominent Panelist being Professor John Murray (QC, MA, LLB, and FCIARB) of School of Law University of Edinburgh, Mr. Subhashish Brahma, Cost Accountant and CFO Aditya Automotive applications Pvt Ltd (TATA group Company), UK Professor Mr. Balraj Chauhan, VC, RML Law University, Mr. Pankaj Bhargava, Chartered Accountant, Mr. Amit Gupta, Company Secretary, CS RK Porwal and Mr. P Muthuswamy, Cost Accountant and Director(Finance)- Scooters India Ltd

who represented Lucknow Chapter of ICWAI. The program was attended by over 200 students of the Law and a large number of Cost Accountants, Company Secretaries, Chartered Accountants and Advocates. From Lucknow Chapter, Mr. OP Saxena, Mr. Mahendra Singh, Mr. Aman Malviya, Mr. Shailendra Paliwal, Mr. Hemendra Soni, Mr. Shahnawaz Khan, Mr. Ubedullah etc. participated in the program.

From the four hour long marathon discussion, four points emerged for enriching the corporate governance practices in India. Firstly, Corporate Governance mandatory rules have to be followed in spirit not a mere KHANAPURTI. Secondly, making financial statement easy to understand by layman and thirdly, enhancing the scope of RTI Act to Corporate as it is under Freedom to Information Act in UK and the fourth, to make a pool of professionals including CA, CWA, CS, Engineers, etc. for utilisation of Corporates to appoint as independent director.

## **NOIDA CHAPTER OF COST ACCOUNTANTS**

### **Seminar on Corporate Social Responsibility 18<sup>th</sup> January, 2011**

A Seminar on "Corporate Social Responsibility" was jointly organised by Noida Chapter of ICWAI, Noida Chapter of NIRC of ICSI & Noida Branch of Sri Aurobindo Society on 18<sup>th</sup> Jan 2011 at HRD Centre, Kribhco Bhawan Sector 1, Noida.

Mr. Lalit Jain, Sr. Vice President & Company Secretary, Jubilant Life Sciences Ltd was the Guest Speaker at the Seminar. The programme was attended by large no. of professionals representing the two premier Institutes of the country. Mr. BL Jain, Secretary & Treasurer of NIRC of ICWAI also attended and graced the function.

Mr. Suraj Prakash, Chairman-Noida Chapter of ICWAI delivered the welcome address. Mr. Suraj Prakash spoke about the relevance of topic in the context of regulatory requirements and changing business perception about their responsibilities towards society. He also shared with members as to how this initiative

which initially was confined to PSU and other Govt. sector companies has not moved to private sector in view of changing business perceptions with respect to their obligations for society whose resources are used by business entities.

Mr. Lalit Jain, explained the relevance of "Corporate Social Responsibility" in the context of various legal and regulatory requirements in the backdrop of recommendations of various groups relating to this aspect including Compact Global. He explained the historical background of the topic including trends and development in the area on the global level and then percolating down to Indian business concerns. He also explained the recent initiatives by GOI in the form of DPE guidelines applicable for Central Public Sector Enterprises requiring commitment for CSR activities. He also deliberated and apprised the members about various CSR projects undertaken by his organisation which has helped the society in and around their plant locations in the form of various projects aimed at education, waste management, clean water etc.

Mr. B.L Jain, summed up the proceedings of the seminar and emphasised the need for continuing the momentum set by Noida Chapter in organising such professional development programme which facilitates Members in not only securing requisite CEP hours but also helps them in updating their skills and knowledge for better professional contribution to their respective stakeholders. He spoke about the relevance of topic in the context of various initiatives taken by PSU companies in terms of setting trends for private sector companies to follow with regard to CSR activities.

Mr. BL Jain and Mr. Lalit Jain were welcomed by presenting a bouquet by Mr. Suraj Prakash, Chairman Noida Chapter & Vice Chairman- Noida Chapter of ICSI respectively. Mr. Rajiv Bajaj, Chairman-Noida Chapter of ICSI presented vote of thanks. As a token of our gratitude, a momento was presented to Mr. Lalit Jain by Mr. Rajiv Bajaj.

High tea was served before the programme during which members interacted with members of other two participating bodies.

## CHANDIGARH-PANCHKULA CHAPTER OF COST ACCOUNTANTS

### Felicitation Function 13<sup>th</sup> February 2011

Chandigarh-Panchkula Chapter of Cost Accountants organised a function to felicitate **Mr. Anil Kumar Gupta** on his elevation as **Commissioner (Central Excise & Customs)** and a seminar on **"Agreement of Family Settlements, Wills and Trust Deeds"** on 13th February 2011 at PHD Chambers of Commerce, Sector - 31, Chandigarh.

**Mr. Rakesh Bhalla, Member NIRC, ICWAI** while welcoming Mr. Anil Kumar Gupta, Senior Member Colleague, felt profound to mention about his achievements in career and rose to such a high position from small city Patiala by his hard work, dedication & positive as well as supportive attitude. Mr. Bhalla mentioned that Mr Gupta is indeed an icon in our profession and role model for all the members, especially young professionals as well as students.

**Mr. Anil Kumar Gupta, Commissioner Central Excise & Customs** duly acknowledged his felicitation and appreciated the efforts being made by local Chapter over a period of time with glorious path of achievements. He has deliberated on upcoming professional scenarios for profession to excel and grab. GST is one of the streams in the ocean of professional growth for further excellence in itself.

**Mr. Balwinder Singh, Central Council Member, ICWAI** also spoke on the occasion about the various achievements of the Institute and tasks undertaken by the Central Council for growth of profession and exploring new arenas apart from existing work.

**Mr. Anil Aggarwal, Key note speaker** in his deliberations has explained in detail on Family Settlement, Trust Deeds and Wills. Apart from this, he has also explained the importance of **"Will"**, especially in case of family dispute etc. He has also touched the taxation part of assets transferred under **Will** and narrated that it does not attract any stamp duty / capital gain. This session was lively and interactively participated by attendees.

**Mr. Anil Sharma, Secretary, Chandigarh Chapter** concluding the seminar appreciated the support extended by Mr Anil Gupta to Chapter during his tenure in Chandigarh.

## HEARTIEST CONGRATULATIONS TO



ICWAI Welcomes Honourable Union Cabinet Minister Mr. Murli Deora who has taken over as the new Minister of Corporate Affairs on 20th January 2011.



ICWAI Welcomes Mr. RPN Singh who has assumed the charge as Honourable MoS (Ministry of Corporate Affairs). He also holds the charge of MoS (Petroleum & Natural Gas).



Dr. H.P. Kumar, Our Senior Member and CMD, NSIC, New Delhi on being conferred with "MERI DILLI AWARD" by the Chief Minister of Delhi in recognition of the innovative NSIC incubation programme for small enterprises establishment launched by NSIC under his leadership, thus facilitating growth of MSME section in the country and creating employment opportunities.



Mr. Anil Gupta, Senior Member of our Institute on his well deserved elevation as Commissioner (Central Excise) at Shillong.

# TAX IMPLICATION ON NGO



**CA MK AGARWAL**

[mkcacs@rediffmail.com](mailto:mkcacs@rediffmail.com)  
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**CA MINAL AGARWAL**

[agarwal\\_minal@yahoo.com](mailto:agarwal_minal@yahoo.com)

There is a general misconception that being an NGO automatically implies that it does not exist for profit and hence is immune to all taxation provisions, whether it is Income Tax, Sales Tax or Service Tax. This lack of knowledge about relevant taxation aspects may land NGOs in serious trouble. For the purposes of taxation, NGOs, Trusts and Companies formed under Section 25 of the Companies Act are generally one and the same. This article delves into various taxation issues related to the NGOs.

## **Introduction to NGO-Taxation:**

The taxation of a society, trust, association or institution or a company licensed u/s 25 of the Companies Act, formed or created for charitable or religious purposes or for promotion of science, literature, education, sports, fine arts, etc is governed mainly by sections 11, 12, 12A, 12AA and 13 and certain clauses of Section 10. Societies which are not covered under any of these sections are assessable u/s 164.

## **Tax Exemptions**

### **1. General Scheme**

The Income Tax Act, 1961, which is a national All-India Act, governs tax exemption of not-for-profit entities.

### **Conditions to be satisfied to attain the Tax-Exempt Status by an NGO:**

The organization must be organized for religious or charitable purposes Sec 2(15):

- \* Relief of Poverty or Distress;
- \* Education;
- \* Medical Relief;
- \* Preservation of environment (including water sheds, forests and wildlife)
- \* Preservation of monuments or places or objects of artistic or historic interest
- \* The advancement of any other object of general public utility,

(However it shall not be a charitable purpose if it involves the carrying on of any activity in the nature of trade, commerce or business for any consideration, irrespective of the nature of use or application or retention of the income from such activity

\*With the amendments brought up by Finance Act 2009, preservation of environment and monuments is separately listed so that they would be excluded from the applicability of the aforesaid conditions which are applicable to the "advancement of any other object of general public utility"

- \* The organization must spend 85% of its income in any financial year (April 1st to March 31st) on the objects of the organization. The organization has until 12 months following the end of the financial year to comply with this requirement. Surplus income may be accumulated for specific projects for a period ranging from 1 to 5 years

- \* The funds of the organization must be deposited as specified in section 11(5) of the Income Tax Act
- \* No part of the income or property of the organization may be used or applied directly or indirectly for the benefit of the founder, trustee, relative of the founder or trustee or a person who has contributed in excess of Rs. 50,000 to the organization in a financial year
- \* The organization must timely file its annual income return
- \* The income must be applied or accumulated in India. However, trust income may be applied outside India to promote international causes in which India has an interest, without being subject to income tax.

## 2. Corpus Donations

Corpus donations or donations to endowment are capital contributions, voluntarily given with specific direction that they shall form part of the corpus of the trust and should not be included to compute the total income of the organization.

## 3. Business Income

Under amendments to Section 11(4A) of the Income Tax Act 1961, a not-for-profit organization is not taxed on income from a business that it operates that is incidental to the attainment of the objects of the not-for-profit organization, provided the entity maintains separate books and accounts with respect to the business. Furthermore, certain activities resulting in profit, such as renting out auditoriums, are not treated as income from a business.

## 4. Disqualification from Exemption

The following groups are ineligible for tax exemption:

- \* All private religious trusts; and charitable trusts or organizations created after April 1, 1962, and established for the benefit of any particular religious community or caste.
- \* \*But note that a trust or organization established for the benefit of "Scheduled Castes, backward classes, Scheduled Tribes or women and children" is an exception; such a trust or organization is not disqualified, and its income is exempt from taxation.

### Taxation on Income of NGO-By way of Anonymous Donations :

**(1) Meaning of "anonymous donation"** means any voluntary contribution, where a person receiving such contribution does not maintain a record of the identity indicating the name and address of the person making such contribution.

### **(2) Anonymous donations shall be taxable at the normal rates in following cases:**

- (a) any trust or institution created or established wholly for religious purposes;
- (b) any trust or institution created or established wholly for religious and charitable purposes other than any anonymous donation made with a specific direction that such donation is for any university or other educational institution or any hospital or other medical institution run by such trust or institution.

Wholly Charitable Trust	Anonymous donations to be taxed u/s 115BBC
Wholly Religious Trust	Anonymous donations not to be taxed u/s 115BBC
Wholly Religious & Charitable purposes	Anonymous donations not taxable u/s 115BBC .Taxable if donation made with specific direction that such donation is for any university/educational institution/hospital/medical institution run by such trust/institution

**According to the amendments in section 115BBC by the Finance (No. 2) Act, 2009, w.e.f. 1-4-2010:**

**Anonymous donation is not taxable to the extent of:**

- (i) 5% of total donations received by the assessee**
- (ii) Rs.100000**

**Whichever is Higher**

**In other words, the anonymous donation shall be reduced by 5 % of the total donations received subject to a minimum reduction of Rs.100000/-**

#### **80G Registration by the NGO:**

Section 80G provides for deduction in respect to donations to certain funds, institutions, etc subject to certain deductions. Deductions in respect of donations to any fund or any institution is available only if such fund or institution is established for "charitable purpose" and if fulfills some specified conditions under section 80G (5).

Clause(vi) of section 80G(5), provides that any such institution or fund must be approved by the commissioner in accordance to rule 11AA, such approval has effect for such number of assessment years as specified in the approval by the department, which could not be exceeding 5 assessment years.

The finance act omits this proviso to clause (vi) of sec 80G w.e.f 1.10.09

With its effects

Approval once granted will be valid till perpetuity until withdrawn; therefore approvals after 1.10.09 shall be valid till perpetuity unless withdrawn

Existing approvals expiring on or after 1.10.09 need not be renewed and shall be valid till perpetuity

Approvals expiring before 1.10.09 will have to be renewed once and after approval will be valid till perpetuity.

#### **Tax Deduction for Donors:**

The Income Tax Act, section 80G, sets forth the types of donations that are tax-deductible. The Act permits donors to deduct contributions to trusts, societies and section 25 companies. Many institutions listed under 80G are government-related; donors are entitled to a 100% deduction for donations to some of these government funds. Donors are generally entitled to a

50% deduction for donations to non-governmental charities. Total deductions taken may not exceed 10% of the donor's total gross income.

As to those entities not specifically enumerated in section 80G, donors may deduct 50% of their contributions to such organizations, provided the following conditions are met:

- \* The institution or fund was created for charitable purposes in India;
- \* The institution or fund is tax-exempt
- \* The institution's governing documents do not permit the use of income or assets for any purpose other than a charitable purpose
- \* The institution or fund is not expressed to be for the benefit of any particular religious community or caste
- \* The institution or fund maintains regular accounts of its receipts and expenditure.

In-kind donations are not tax-deductible under Section 80G. Receipts issued to donors by not-for-profit organizations must bear the number and date of the 80G certificate and indicate the period for which the certificate is valid.

#### **Taxation Issues and Planning for NGOs/NPOs**

Tax Audit For NGOs

**Tax Audit under section 44AB is required to be conducted for an NGO, if activities ancillary to the main objects of the not for profit organization constitute a commercial nature:**

Most of the NGOs, many a time, unknowingly or without intention indulge in businesses also. For example, NGOs active in education may be running bookshops in or around their schools, or NGO hospitals may be running pharmacies. These types of activities, though incidental to the main object of the Trust/NGO, constitute business and therefore require maintenance of separate books which should be subject to audit under section 44AB. Institutions not doing so are exposed to penalties under section 271B of the Act.

#### **Provisions Relating to Service Tax:**

- \* Service tax shall be leviable on any taxable service provided by trust/societies.

\* Till the Finance Act 2005, most of the NGOs, not being 'commercial concerns' were exempt from charging service tax. The Finance Act 2006 has substituted references in the Finance Act, 1994 to the expression 'commercial concern' in relation to 17 taxable services, with the term 'person' or 'any person'. The implications of this is quite wide and now even a nonprofit making entity, say a charitable trust or a company registered under section 25 of the Companies Act, is liable to pay tax and is eligible to take credit of such tax paid on its input services. Thus, if any of the activities of an NGO falls under any of the services covered, in clause 105 of section 65 of Finance Act 1994, care should be taken to ascertain service tax implications.

\* **Rate of service tax-10% plus Education cess**

**Provisions Relating to Sales Tax/VAT:**

Businesses run by NGOs are also liable to charge tax and are eligible to take tax credit under respective state VAT laws. Several large corporate houses in India run educational or medical institutions near their place of operations, and more particularly at their plant locations situated in remote areas where providing these facilities is necessary to retain employees as part of total living conditions. In order to maintain relations with residents of local areas, and also in zeal to discharge their Corporate Social Responsibility (CSR), persons from general public are also allowed education or treatment in these institutions. At times, these activities are run by corporate under the umbrella of specifically formed trusts or institutions. Deficit arising out of operations of these institutions is met by the parent organizations, i.e. business/industry. With CSR becoming a buzzword, courts have recognized that CSR activities run near business places are unavoidable and are a part of business. After introduction of VAT, it makes a strong case to merge these activities with the main business. With this, expenditures incurred for running these activities will become part of mainstream business expenditure and organizations will become eligible to take credit of state VAT/service tax paid on a host of inputs in physical or intangible forms.

**WEALTH TAX ON SOCIETIES:**

Wealth tax will be charged on taxable assets of a society @1% of net wealth with basic exemption of Rs.30 Lakhs, (incorporating the changes brought by the Finance Act 2009)

**Relevant Case Laws on NGO**

**APPLICATION OF INCOME:**

**133 ITR 779(Mad.)**

**Kannika Parameshwari Devastham & Charities**

If the expenditure is on capital account on objects contained in the object clause,the expenditure will amount to application of income.

**242 ITR 457 (Kar)**

**Janmabhumi Press Trust**

The assessee constructed a building out of accumulated and borrowed funds. The building was later rented out. A part of the rent was used for repayment of loan .such repayment of loan was treated as application of income

**(1991) 39 TTJ 82(AT) (Mad.)**

**Chidambaram Chettair Foundation Vs ITO**

Income for the purpose of Section 11 should be understood in its commercial sense and, therefore, loss on sale of shares to make investments in specified investments within the meaning of section 11(5) has to be treated as application of income of the trust.

**APPROVAL U/S 80G:**

**(1967) 65 ITR 611 (SC)**

**East India Industries (Madras) Pvt Ltd.**

The question whether donations to an institution are deductible u/s 80G has to be decided with reference to all objects of the institution. If some objects are non charitable, the institution is not eligible for approval.

**Conclusion**

With the role of governments gradually shrinking from the day-to-day life of citizens, NGOs will play a greater role in fulfilling that gap. With their increasing role in the society, responsibility in terms of public trust and also larger sums on their disposal, NGOs need to be more professional in planning their affairs. Development, interpretation and litigation about taxation are never ending processes and NGOs are not immune from this. They also have to live with taxes and relevant procedures and complications.

# A PRE BUDGET SCENARIO & COMPARATIVE STATEMENT: BEFORE & AFTER INTRODUCTION OF PROPOSED DIRECT TAX CODE(2010)

: Peeyush Kumar Gupta  
M.com, AICWA

First Discussion Paper on DTC released on 12th August 2009 (DTC 2009)

Revised Discussion Paper released on 15th June 2010 (DTC 2010)

DTC proposed to  
be applicable from 1/4/2012

S. NO.	Particulars	Present Scenario	Scenario after introduction of DTC
1	Concept of YEAR	Concept of 'Previous Year' & 'Assessment Year'	Unified Concept of 'Financial Year'
2	Category of Individual	a) Resident & Ordinarily resident b) Resident but not Ordinarily resident c) Non Resident	a) Resident b) Non Resident
2	Determination of Income	Income under various heads first determined on "Net Basis" considering separate deduction from each head & then total of Net Income under various heads consider for tax computation.	Income under various heads first determined on "Gross Basis" and only some specified deductions are allowed.
3	Classification of Income Heads	As per section 14, Following are Five Heads of Income : 1) Salaries 2) Income from House Property 3) Profit & Gains of Business Or Profession 4) Capital Gains 5) Income from Other Sources	Two Categories of Income 1. Income from Special Source :- It covers Royalty, Fees for Technical Services, Investment Income etc. earned by non-resident & income by Way of lotteries, puzzles, races for all taxpayers. 2. Income from Ordinary Source :- a) Income from Employment b) Income from House Property c) Income from Business d) Capital Gains e) Income from Residuary Sources.
4	Tax Slabs (Individuals)	Up to 160000 Nil From 160000-500000 Tax @ 10% From 500000-800000 Tax @ 20% From 800000 onwards Tax @ 30% Slabs of Woman Assesses Starts from 190000/- & Sr. Citizen Starts from 240000/-	Up to 200000 Nil From 200000-500000 Tax@ 10% From 500000-1000000 Tax@ 20% From 1000000 onwards Tax@ 30% NO DISTINCTION IN MEN & WOMEN. Only Sr. Citizens Slab Starts from Rs. 2.5 Lacs

S. NO.	Particulars	Present Scenario	Scenario after introduction of DTC
5	Tax Slabs (Domestic Companies)	Rate of Tax is 30% Surcharge of 7.5% applicable for assessment year 2011-12	Rate of Tax is 30%
6	Payment from Employer	Presently Employee avail different Exemption Under Sec. 10	All Payment from Employer will become part of Gross Income of the Employee and then there is deduction .No Exemption will be in DTC
7	Leave Travel Concession	Two Journeys in a block of four years Exempt	Fully Taxable
8	Medical Reimbursement	Up to Rs.15,000 is exempt	Chances of enhancement in limit are possible.
9	Leave Encashment on Retirement	Exempt up to Rs 3.00 Lacs	Fully Taxable
10	Gratuity	Exempt up to Rs 10.00 Lacs	To be notified
11	VRS	Exempt up to Rs 5.00 Lacs	To be notified
12	Commutation of Annuity	Exempt 1/3rd of Commuted Value of Annuity if receives Gratuity otherwise 50% .	To be notified
13	Tax Savings Benefit	Maximum tax benefit u/s 80C, 80CCC and 80CCD can't exceeds Rs 100000/- . & Rs 20000/- u/s 80CCF. The benefit of mediclaims policies & health insurance covered u/s 80D having General Deduction of Rs. 15000/- and additional deduction of Rs. 15000/-.	ULIP'S , ELSS Term deposits, NSC (National Savings certificates), Long term infrastructures bonds, house loan principal repayment, stamp duty and registration fees on purchase of house property will lose tax benefits. Aggregate Limit of Tax Saving is Rs 150,000/- - Rs 100,000/- remains for PF, PPF, New Pension Fund etc. -Another 50,000 has been added for following i) Pure life insurance (Sum insured is at least 20 times the premium paid) ii) Health insurance, Mediclaims policies iii) Tuition fees of children.
14	Income From House Property	Deduction U/s 24 is 30% of net annual Value (i.e. Gross annual Value less Municipal Taxes) Gross Annual Value of House Property is higher of Expected rent of Property & actual rent received or receivable.	Deemed Rent Abolished. Only Actual rent will be considered. Deduction U/s 24 will be 20% of Gross Rent

S. NO.	Particulars	Present Scenario	Scenario after introduction of DTC
15	Interest paid on Housing Loan	Allowable as Deduction U/s 24 (b) if capital is borrowed for purpose of purchase, Construction, repair, renewal or reconstruction of house property	Under DTC no deduction under House Property Income. However deduction from Gross Income will be allowed but only when loan is from Financial Institution.
16	Period of Short Term Capital Gain	Period of Holding of Assets - Less than 36 months	Period of Holding of Assets - Less than 12 months
17	Rate of Tax on Short Term Capital Gain	i) Tax on listed Securities- 15% ii) Tax on other Short term Gains - Normal Slab Rate	Direct deduction of 50% will be allowed & rest will be considered as taxable at Normal Slab Rate.
18	Period of Long Term Capital Gain	Period of Holding of Assets - 36 months & above	Period of Holding of Assets - 12 months & above
19	Tax Rate for Long Term Capital Gain	i) Tax @ 20% with indexation ii) Tax @ 10% without indexation	It will be added to Gross Income after indexation & be taxed at Normal Slab Rate.
20	Base Rate for Indexation	1st April 1981	1st April 2000
21	Income From Business	Income from Business derived after adding Expense which debited in P& L A/c but are not allowable as deduction & those incomes which are not credited in P& L A/c but are taxable & by reducing those expenditure which are allowable as deduction but not debited in P & L A/c & income which are credited to P & L A/c but which are not taxable in nature.	Every Business Constitute a separate Source of Income. So there is separate calculation of Income from each Business. Depreciation & "Income from Business is based on Gross Business Receipts less permitted and specified Business Expenditure.
22	Classification of Assets in Business	Assets :- Here term " Block of Assets" has been defined comprising :- a) Tangible Assets b) Intangible Assets	Assets :- a) Business Assets (Covered under the head 'Income from Business') Comprises :- i) Business Trading Assets ii) Business Capital Assets b) Investment Assets (Covered under the head 'Capital Gain')
23	MAT Rates	Effective Mat rate is 18.54% of Book Profit (if Book Profit < 1 Crore) OR 19.9305% of Book Profit (if Book Profit > 1 Crore)	Enhanced tax rate of 20% on book Profit
24	MAT Credit	Allowed to be Carried forward for 10 years	Allowed to be Carried forward for 15 years
25	Wealth Tax Limit	Rs. 30 Lakhs	Rs. 1 Crore
26	Compliance	Separate Return of Income Tax & Wealth Tax	Single Return Consolidating Income and Wealth

# LIVING WITH INFLATION

**Antriskh Bhatia**  
Cost Accountant

Food inflation hits 18.3% (Economic Times dated 7<sup>th</sup> Jan 2010) says one headline. It certainly is not healthy and sustainable. And a side headline on the front page shows inflation linked NGREGA wages now applicable. We are experiencing painful increase in inflation and particularly food inflation - representing shortage of supply, more money in people's hand, less productivity, lots of exports that it causes scarcity, fewer imports than necessary, etc. The reasons can be any or combination of any of them.

The first thing notable in all this is, people now have more money in their hands - thanks to schemes like NGREGA which pushed up the wage bar. Linking it with inflation will further add to the increase in inflation. If we look at the past one decade, in particular, there has been a tremendous increase in salaries in real terms, thanks to the IT revolution and service driven economy. The MNCs and Indian companies too do not mind shelling big bucks for the right talent. This is quite evident from the number of 'commoner millionaires' in cities. Increase in the number of companies, increase in the amount of business coming to India, increase in skills of employees, inelasticity of supply of talented human resources in the short term, etc are some of the factors responsible for ever increasing salaries.

The market forces of demand and supply play a very big role in increase of salaries in urban India. Increased salaries, in turn, result in easy availability of finance. Burgeoning salaries are security enough for banks to give loans for home, automobiles, university education, land, etc. Increase in demand of all such commodities by such large section of people in turn causes surge in the prices to the extent that they seem unreasonable and ridiculous. Look at any urban market, the salaried are in the race to buy homes and have their salaries are tied up for two decades (typically) in EMIs to banks.

Government is playing a big role in putting more money in hands of rural folks, also many times with political imperatives in mind. Agriculture loan waivers, various subsidies, NGREGA schemes, etc puts a lot of money in

hands of a very large section of people, causing increase in demand for goods and services in rural India - particularly food items and low end services. While market forces are involved in urban areas, in rural areas government intervention is just too conspicuous. Whatever the reason for increased supply of money, its value always decreases when there aren't corresponding goods and services to support it. Simply put, we are experiencing more demand for goods and services than are available. To add to it, monetary measures - the ones adopted by the RBI relating to interest rates, etc. - are of little use. We have supply constraints which cannot be resolved in the short term.

Of course, there is no way we can immediately increase the productivity of pulses, for example. In fact, there is no short term solution to this. Few steps to address food inflation are - to increase the productivity in agriculture, revamping the supply chain, providing adequate marketing, financing, elimination of middlemen, etc. Whatever progress we make in IT, we lag behind in agriculture. Let's put our best minds to it. The country needs it.

Let's view things a little differently. Why increase in salaries and wages increase inflation so much? Using no official or unofficial estimate - supposing for every 1000 salaried persons there is but one entrepreneur. The assumption seems realistic. Very few would venture out in the hectic and not-so- easy world of entrepreneurship.

Now increase in the income from business will not give as much push to demand as increase in salaries would give. Firstly, entrepreneurs are fewer than salaried persons. Secondly, entrepreneurs would like to reinvest the income depending upon the phase of growth the organization is experiencing. Thirdly, increase in salary is a wider phenomenon. Increase in salary for same services creates an industry wide increase. As a result, there is more money now in the hands of very large number of people. On the other hand, increase in income of an entrepreneur is due to

his special efforts like - negotiations, contracts, contacts, after sales, etc. Notably, increase in macroeconomic factors like taxation, prices of raw materials, etc. have industry wide influence even in case of enterprises. Having said all that, salaries increase only when the businesses prosper. There is a time lag between boom in business and increase in salaries. If we look at IT companies, the most important resource is Human Resource. Given the kind of enviable operating margins IT companies have, it is quite natural that the business profits trickle down to the salary level quite fast indeed.


Let's summarize. In case income from business increases, a very less base of population experiences increase in income in hand. But as businesses continues to prosper, salaries increase eventually, putting money in the hands of a very wide base of population.

As a result of the latter, you would see ridiculous real estate prices that you now see. Similarly, increase in demand for food items, hence the unsustainable food inflation; increased demand for automobiles; increased demand for fine dining; increased capacity to 'waste away' things

Who suffers the most as a result of all this? The answer is simple -- the one whose income is not linked to inflation. On the lighter side, auto rickshaw drivers in Delhi generally benefit from an increase in prices of the fuel that goes into their vehicle. Their fare, most of the time, increase more than proportionately.

The author does not argue whether increase in income of salaried is good or bad but tries to examine its effect.

Total population of India and China form 37% of world population, according to 2009 World Bank's World Development Indicators. Increase in affluence of such huge population puts huge pressure on limited resources of the planet; whether it is sustainable or not, is debatable and beyond the scope of this write up.




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**APPOINTMENT OF CORPORATE AFFAIRS SECRETARY**

Mr. D K Mittal, a 1977 batch IAS officer of UP cadre has been appointed as Corporate Affairs Secretary, Govt. of India, w.e.f 31st Jan, 2011

Mr. Mittal replaced Mr. R Bandyopadhyay who retired on the same day.

NIRC of ICWAI extends a warm welcome to him and wishes him all the success in the challenging leadership time in the corporate developments.

