All India CA Students' Conference

Friday & Saturday, July 6 & 7, 2012

Hosted by:
Baroda Branch of WIRC of ICAI
&
Baroda Branch of WICASA

Organized by:
Board of Studies - The Institute of Chartered Accountants of India

BARODA BRANCH OF WESTERN INDIA CHARTERED ACCOUNTANTS STUDENTS ASSOCIATION (WICASA) OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Students are requested to kindly send article / paper of interest to wicasa.baroda@gmail.com. The same may be published in the newsletter subject to availability of space & editing.

WICASA  facebook COMMUNITY :
Be a part of the “WICASA Baroda” now also on FACEBOOK Community. Exchange views and news. Be updated about forthcoming events of WICASA.

STUDENTS’ STUDY CIRCLE :
Join now .... where in students can exchange knowledge with the help of group discussion.
Contact Mr. Kanji Hadia -987969764

BRAIN TRUST SESSION :
Join now... where a group of students can discuss on predetermine questions and moderator (from CA fraternity) will elaborate the discussion and conclude. Contact Ms. Hiral Jethva - 9714778552

SPORTS ACTIVITIES :
Join now...where in students can participate in Indoor-Outdoor games for overall development.
Contact Mr. Dipesh Thakkar- 988940652

WICASA HELPLINE : Students are invited to send their feedback suggestions or grievances to wicasa.baroda@gmail.com or contact Mr. Sharukh Pathan-8905094384, Mr. Mehul Thakkar-8905564940

Chairman’s Communication

Dear Students,

Well, as all of you are aware that, after 12 years Baroda Branch of WICASA has got the chance to host “25th All India CA Students Conference” on 6th and 7th July 2012. The conference will confer an opportunity to the Chartered Accountants Students across India to develop a network of participants and to pursue and foster professionalism. The Conference attempts to bring together students from different part of the nation under a common platform to explore their aptitude and to exchange views. The wealth of knowledge and experience of learned faculties will ignite the minds of the delegates. The theme of the conference is “Tamso Ma Jyotirgamaaya – Lead me from Darkness to Light”

It’s glad to see the overwhelming response from students’ fraternity for the “25th All India CA Students’ Conference: on 6th and 7th July 2012, Students across the nation have registered in huge numbers for the Conference.

In the Month of May, Baroda Branch of WICASA had attempted to serve the CPT students fraternity by conducting Mock test on 27th May for the June’12 examination, in which more than 125 students took the benefit of the arranged Mock test. WICASA Baroda has done Industrial visit for the benefit of students to get exposure of different industries and their respective working atmosphere. A special & Interactive session was organized by WICASA Baroda in which the students interacted with the volunteers of “ART OF LIVING” & were given a brief on anger & stress management.

Regards,
CA. Ashish Parikh

Registration Procedure of “25th All India CA Students’ Conference”:

Registration Fees Rs. 750/- (inclusive of course material, breakfast, lunch on 6th & 7th July,2012) & Cheque/DD to be drawn in favour of “Western India Chartered Accountant Students Association”, payable at Baroda. Students can also make online E-Payment on www.baroda.icai.org
Meeting with President & WICASA Chairman

Date & Day: 08.06.2012, Friday
Time: 14:00 Hrs. to 17:00 Hrs.
Speaker: CA. Jaydeep Shah
Topic: Meeting with President CA. Jaydeep Shah & WICASA Chairman Shruti Shah
Venue: ICAI BHAWAN

Feedback Session - "33rd G.M.C.S. Batch"

Date & Day: 11.06.2012, Friday
Time: 18:00 Hrs. to 20:00 Hrs.
Venue: ICAI BHAWAN

All Committee Meeting

Date & Day: 16.06.2012, Saturday
Time: 18:00 Hrs. to 20:00 Hrs.
Topic: All Committee Meeting for "All India CA Students Conference"
Venue: ICAI Bhawan

Study Circle Meeting

Date & Day: 23.06.2012, Saturday
Time: 18:30 Hrs. to 21:00 Hrs.
Topic: Banking A/c scheme for NRI
Speaker: Udit Patadia
Venue: ICAI Bhawan

FORTHCOMING EVENTS

"All our dreams can come true – if we have the courage to pursue them."
rupee fall, lessen the strain on the import bill and to meet the demands of the loss making oil, the government hiked the petrol prices by Rs. 7.50. The kerosene and diesel prices remained unchanged. This move has increased the woes of common man and has drawn criticism from all quarters. Many economists believe, that the reasons given by the government are not justified, since the problems could have been solved by taking measures to bring back FIIs to the country or by allowing FDI.

COAL GATE: The CAG allegedly says (what it actually says will be known when its report is out) that private companies made undue gains worth Rs 1.8 lakh crore, because of the way in which the government allotted them coal blocks, without auctioning them. Meanwhile, Central Vigilance Commission (CVC) on Thursday referred the coal block allocation between 2006 and 2009 for a probe by the CBI.

INDIA IN CRISIS? Latest data shows the Indian economy grew at a shocking 5.3% in the fourth quarter of the last fiscal, a level last seen 9 years ago. This takes the overall FY12 growth numbers to an abysmal, lower-than-expected 6.5%. While the government is still putting on a brave face, the FY13 growth target of 7% may be a long shot.

FDI: The government today said it has cleared 25 foreign direct investment (FDI) proposals, including that of AIF III of Mauritius and Mumbai based Microqual Techno, worth Rs 2,973.40 crore.

The applications were cleared after recommendations of the Foreign Investment Promotion Board (FIPB) headed by Economic Affairs Secretary R Gopalan, the Finance Ministry said. Keshub Mahindra steps down as the CEO & MD of Mahindra & Mahindra group, Anand Mahindra to take over, stocks surge on the news.

ICAI is planning to review the CA syllabus completely, in tune with the present. “It may take a year’s time, but we are at it,” said Mr Nilesh Vikamsey, Chairman, Board of Studies, ICAI.

He was in the city for an interactive meeting with the students of the Coimbatore Chapter of the ICAI. Speaking to newspersons on the sidelines of the interactive session, Mr Vikamsey said: “We are reviewing the syllabus – subject-wise, at the macro level. Information Technology (IT) is rapidly changing the way we do things. This has compelled us to take
a relook at the syllabus.” The institute has entered into agreements with select Universities for strengthening the course content

ICSI has sought early passage of the new Companies Bill. ICSI President Nesar Ahmad has said he has requested Yashwant Sinha, Chairman of Parliamentary Standing Committee on Finance, to work towards approval of the Bill in the ongoing Budget session of Parliament.

GLOBAL: Facebook IPO: Facebook Inc’s initial public offering was plagued by trading errors and saw a 16 per cent drop in the share price, from the initial offer price of $38; market analysts believe it cud fall as low as $10 per share

European Commission called for big changes throughout the euro zone on Wednesday as it placed Spain at the head of a critical list of 12 economies ordered to carry out major reforms this year. The European Union executive said euro zone-wide bank deposit guarantees were now essential as investor concern homed in on wayward Spanish public finances, locked in a spiral of recession and massive unemployment.

France Elects Francois Holland as the new president, Sarkozy ousted. It would be interesting to see how Germany’s Angela Merkel and the newly elected socialist French President, seen as people with conflicting ideologies, work together to resolve the Euro zone crisis.

CASE LAWS:

INCOME TAX: CIT v. ENAM SECURITIES (P.) LTD. (Bombay HC) [2012]: Redemption of Preference shares between the companies under same management cannot be termed as sham/ not genuine transfer just because they are under same management. Further, the four per cent non-cumulative redeemable preference shares were not bonds or debentures within the meaning of that expression in section 48 of the Income-tax Act. Therefore, the redemption is a valid transfer and liable to capital gain tax with indexation under Section 48.

SHANTI LAL JAIN v. CIT (Rajasthan HC) [2012]: Brokerage earned on investments in Mutual Funds of companies if parted with the family members, provisions of section 40A(2)(b) would be applicable and the amount paid to family members would not be allowed as deduction as it is diversion of income

CIT v. SHRI P.N.PANJWANI - (Kanataka HC) [2012]: Amount received for dilution of partnership share in favour of new partner is not at all taxable.

ACC LTD. v. DISTRICT VALUATION OFFICER (Delhi HC) [2012]: Valuation Proceedings are to be completed once it is referred to DVO irrespective of the fact whether Assessment Order is issued or not.

Bharti Gupta Ramola vs CIT (Delhi HC)[2012]: Period of holding for computing capital gains to include both-dates of acquisition and transfer, fraction of day not to be excluded.

A.G. Holdings (P) Ltd vs ITO (Delhi HC)[2012]: Sec. 148 notice would not be time-barred merely because reasons recorded are conveyed to assessee after the limitation period

CIT vs Ansal Properties & Infrastructure Ltd (Delhi HC)[2012]: Block of assets mechanism does not require sorting of assets division-wise or unit-wise, even if accounts are maintained that way

CENTRAL EXCISE: PRINCE MULTIPLAST PVT. LTD. Vs UNION OF INDIA - (Guj HC): Petitioner shifted goods to alternative location in emergency & Tribunal is of the view that action of petitioner was not suggestive of intention to evade duty. But HC is of the view that petitioner shall be liable to a penalty, & merely because confiscation under Rule 173Q is set aside as the ingredients of Section 11AC of the Act and Rules 57-I(4) and 57U(6) of the Rules are not satisfied does not mean that penalty under Section 209A cannot be levied.

Azad Coach Pvt. Ltd. Vs C.C.E., Jaipur I - (CESTAT, NEW DELHI): The appellant company is engaged in building of bus bodies & the Department was of the view that assessee were building bus bodies on job work basis. It is decided that body fabricating and mounting on the chassis which were supplied to the said firms by the manufacturer of chassis is the activity for the purpose of valuation squarely fall under Rule 10A and not under Rule 6

Bharat Petroleum Corporation Ltd. Vs. CCE, Mumbai (Bombay CESTAT-LB) [2012]: An assessee is eligible to avail the credit of balance 50% of the amount of duty paid on the capital goods in the subsequent financial year, without installing the same and putting it into use - The condition imposed under the relevant Cenvat Credit Rules, for taking credit of balance of 50% of amount of duty on capital goods in subsequent financial years, in case the capital goods are lying in the factory for installation and the process of erection was being carried out has to be considered as the capital goods were in possession and use for manufacture

SERVICE TAX : Rashtriya Ispat Nigam Ltd. Versus Dewan Chand Ram Saran (SC)[2012]: The contractor had to bear the service tax under clause 9.3 as the liability in connection with the discharge of his obligations under the contract. The appellant could not be faulted for deducting the service tax from the bills of the respondent under clause 9.3

Mr. X Versus Director General, DGCEI Mumbai Zone (Bomb HC)[2012]: Though the department has recovered the duty evaded on account of service tax dues together with interest, the matter has not attained finality. The payment of a reward at this stage cannot be directed, less so by the Court in the exercise of its extra ordinary jurisdiction under Article 226 of the Constitution.
RUPEE DEPRECIATION:
PROBABLE CAUSES AND OUTLOOK

Contributed by: Prateek Patel, CA Final Student

The Indian Rupee has depreciated significantly against the US Dollar marking a new risk for Indian economy. Till the beginning of the financial year (Apr 11-Mar 12) very few had expected Rupee to depreciate with most hinting towards either appreciation or status quo in the rupee levels. Those few who had even anticipated may not have imagined the scale of depreciation with rupee touching a new low of around Rs 54 to the US Dollar.

What is even more interesting to note is that when other countries are trying to play currency wars and trying to keep their currencies devalued, India is trying to prevent depreciation of the currency. (Read our previous report for a review of the situation- Saying No to Currency Wars (20-Sep-11))

This paper reviews the probable reasons for this depreciation of the rupee and the outlook for the same. It also reflects on the policy options to help prevent the depreciation of the Rupee

I. Economics of Currency

Predicting currency movements is perhaps one of the hardest exercises in economics as it has many variables affecting the market movement. However, over a longer term currency movement is determined by following factors:

Balance of Payments: It is the sum of current account and capital account of a country and is an external account of a country with other countries. Both current account and capital account play a roie in determining the movement of the currency:

- Current Account Surplus/Deficit: Current account surplus means exports are more than imports. In economics we assume prices to be in equilibrium and hence to balance the surplus, the currency should appreciate. Likewise for current account deficit countries, the currency should depreciate.

- Capital Account flows: As currency adjustments do not happen immediately to adjust current account surpluses and deficits, capital flows play a role. Deficit countries need capital flows and surplus countries generate capital outflows. On a global level we assume that deficits will be cancelled by surpluses generated in other countries. In theory we assume current account deficits will be equal to capital inflows but in real world we could easily have a situation of excessive flows. So, some countries can have current account deficits and also a balance of payments surplus as capital inflows are higher than current account deficits. In this case, the currency does not depreciate but actually appreciates as in the case of India (explained below). Only when capital inflows are not enough, there will be depreciating pressure on the currency.

Interest Rate Differentials: This is based on interest rate parity theory. This says that countries which have higher interest rates their currencies should depreciate. If this does not happen, there will be cases for arbitrage for foreign investors till the arbitrage opportunity disappears from the market. The reality is far more complex as higher interest rates could actually bring in higher capital inflows putting further appreciating pressure on the currency. In such a scenario, foreign investors earn both higher interest rates and also gain on the appreciating currency. This could lead to a herd mentality by foreign investors posing macroeconomic problems for the monetary authority.

Inflation: Higher inflation leads to central banks increasing policy rates which invites foreign capital on account of interest rate arbitrages. This could lead to further appreciation of the currency. However, it is important to differentiate between real inflation over a short term versus a prolonged one. Over short-term foreign investors see inflation as a temporary problem and still invest in the domestic economy. If inflation becomes a prolonged one, it leads to overall worsening of economic prospects and capital outflows and eventual depreciation of the currency.

Apart from this, inflation also helps understand the real changes in a value of currency.

Real exchange rate = Nominal Exchange Rate* (Inflation of foreign country/Inflation of domestic economy). This implies if domestic inflation is higher, the real change in the value of the currency will be lower compared to the nominal change in currency.

Fiscal Deficit: Fiscal deficits play a role especially during currency crisis. If a country follows a fixed exchange rates and also runs a large fiscal deficit it could lead to speculative attacks on the currency. Higher deficits imply government might resort to using forex reserves to finance its deficit. This leads to lowering of the reserves and in case there is a speculation on the currency, the government may not have adequate reserves to protect the fixed value of the currency. This pushes the government to devalue the currency. So, though fiscal deficits do not have a direct bearing on foreign exchange markets, they play a role in case there is a crisis.

Global economic conditions: Barring domestic conditions, global conditions impact the currency movement as well. In times of high uncertainty as seen lately, most currencies usually depreciate against US Dollar as it is seen as a safe haven currency.
Hence even over a longer term, multiple factors determine an exchange rate with each one playing an important role over time.

II. Rupee Movement since 1991

If we look at India’s Balance of Payments since 1970-71, we see that external account mostly balances in 1970s. In fact in second half of 1970s there is a current account surplus. This was a period of import substitution strategy and India followed a closed economy model. In 1980s, current account deficits start to rise culminating into a BOP crisis in 1991. It was in the 1991 Union Budget where Indian Rupee was devalued and the government also opened up the economy. This was followed by several reforms liberalizing the economy and exchange rate regime shifted from fixed to manage floating one. Hence, we need to analyse the current account and rupee movement from 1991 onwards.

India has always had current account deficit barring initial years in 2000s (Figure 1). The deficit has been financed by capital flows and mostly capital flows have been higher than current account deficit resulting in balance of payments surplus. The surplus has in turn led to rise in forex reserves from USD 5.8 bn in 1990-91 to USD 304.8 bn by 2010-11 (Figure 2). In 1990-91, gold contributed around 60% of forex reserves and forex currency assets were around 38%. This percentage has changed to 1.5% and 90% respectively by 2010-11.

What is even more stunning to note is the changes in BOP post 2005 (Table 1). In 1990s, Balance of Payments surplus is just about $4.1 bn and increases to $22 bn in 2000s. However if we divided the 2000s period into 2000-05 and 2005-11, we see a sharp rise in both current account deficit and capital account surplus. The rise in Forex reserves is also mainly seen in 2005-11.

Table 1: Balance of Payments (in USD bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Account</th>
<th>Capital Account</th>
<th>BOP</th>
<th>Forex Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-00</td>
<td>-3.8</td>
<td>7.9</td>
<td>4.1</td>
<td>23.5</td>
</tr>
<tr>
<td>2000-11</td>
<td>-11.6</td>
<td>33.6</td>
<td>22.0</td>
<td>174.8</td>
</tr>
<tr>
<td>2000-05</td>
<td>3.7</td>
<td>14.7</td>
<td>18.4</td>
<td>85.4</td>
</tr>
<tr>
<td>2005-11</td>
<td>-24.3</td>
<td>49.3</td>
<td>25.0</td>
<td>249.4</td>
</tr>
</tbody>
</table>

Source: RBI

Hence overall we see the Rupee following the path economic theories highlighted above have suggested.

As India opened up its economy post 1991, Rupee depreciated as it had current account deficits. Earlier current account deficits were mainly on account of merchandise trade deficits. However, as services exports picked up it helped lower the pressure on current account deficit majorly. Without services exports, current account deficit would have been much higher.

There was a blip during South East Asian crisis when current account deficit increased from $4.6 bn to $5.5 bn in 1997-98. Capital inflows declined from $11.4 bn to $10.1 bn leading to a decline in BOP surplus and depreciation of the rupee. However, given the scale of the crisis the depreciation pressure on Rupee was much lesser. There was active monetary management by RBI during the period. Similar measures have been taken by RBI in current phase of Rupee depreciation as well (discussed below).

Till around 2005, India received capital inflows just enough to balance the current account deficit. The situation changed after 2005 as India started receiving capital inflows much higher than current account deficit. The capital inflow composition also changed where external financing dominated in early 1990s and now most of the capital inflows came via foreign investment. Within foreign investment, share of portfolio flows was much higher. As capital inflows were
higher than the current account deficit. Rupee appreciated against major currencies.

Other factors also led to appreciation of the rupee. First, India entered a favorable growth phase registering growth rates of 9% and above since 2003. This surprised investors as few had imagined India could grow at that rate consistently. The high growth led to surge in capital inflows mainly in portfolio inflows. Second, India’s inflation started rising around 2007 leading to RBI tightening policy rates. This led to higher interest rate differential between India and other countries leading to additional capital inflows as highlighted above. It is important to understand that at that time investors did not feel inflation will remain persistent and thought it to be a transitory issue and could be tackled by monetary policy.

During Lehman crisis capital flows shrunk sharply from a high of $107 bn in 2007-08 to just $7.8 bn in 2008-09 and led to sharp depreciation of the currency. Rupee plunged from around Rs 39 per $ to Rs. 50 per $. REER moved from 112.76 in 2007-08 to 102.97 in 2008-09 depreciating sharply by 9.3%. The current account deficit also declined sharply as well tracking decline in oil prices from $ 12 bn in Jul-Sep 08 to $0.3 bn in Jan-Mar 09. The Currency also depreciated tracking the global crisis which led to preference for dollar assets compared to other currency assets.

Indian economy recovered much quicker and sharper from the global crisis. The capital inflows increased from $7.8 bn to $51.8 bn in 2009-10 and $57 bn in 2010-11. The higher capital inflows were on account of both FDI and FII. External Commercial Borrowings also picked up in 2010-11. The current account deficit also increased from $27.9 bn in 2008-09 to $44.2 bn in 2010-11. REER (6 currency) appreciated by 13% in 2010-11 and 36 REER by 7.7%.

### III. Depreciation of Rupee: 2011-12

Before we analyze the factors for the recent depreciation of the rupee, let us look at the survey of professional forecasters released by RBI. Current account deficit is more or less same but consensus expects capital inflows in 2010-11 to be lower in each succeeding quarter. This leads to lower BOP estimate. However, the forecasters maintain their forecast for Rupee/Dollar unchanged. This is surprising as with lower capital inflows, markets should have expected some depreciating pressure on Rupee as well. BOP surplus of $10.3 bn would have been lowest (barring 2008-09) figure since 2000-01. The lowest figure for INR/USD is 47.1 in Q3 10-11, 46 in Q4 10-11 and 45.6 in Q1 10-11. It is safe to say most of the participants missed the estimate by a wide mark. It was a complete surprise for most analysts.

### Table 3: Forecasts for 2011-12 (median values)

<table>
<thead>
<tr>
<th></th>
<th>Q3 2010-11</th>
<th>Q4 2010-11</th>
<th>Q1 2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rupee/USD</td>
<td>43.5</td>
<td>44.5</td>
<td>44.5</td>
</tr>
<tr>
<td>Current Account Balance (US $ bn)</td>
<td>-59.4</td>
<td>-56.9</td>
<td>-54.7</td>
</tr>
<tr>
<td>Capital Account Balance (US $ bn)</td>
<td>83</td>
<td>75</td>
<td>65</td>
</tr>
<tr>
<td>BoP (US $ bn)</td>
<td>23.6</td>
<td>18.1</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Even the Q1 11-12 numbers did not really sound an alarm (Table 4). The current account deficit was at $14.2 bn and capital account was at $19.6 bn leading to a BOP surplus of $5.4 bn. BOP surplus in Q4 2010-11 was $2 bn. More importantly, capital inflows had risen from $7.4 bn in Q4 2010-11 to $19.6 bn in Q1 2011-12 on account of foreign investment (both FDI and FII).

The problems start to surface from Q2 11-12 onwards. In Table 4, we have put some of the data released by RBI and Commerce Ministry for the period post Q1 11-12. As we can see, current account deficits is likely to be higher but capital inflows especially FII inflows are going to be much lower. Compared to EAC projections, current account deficit is likely to be higher and capital account lower leading to either a negligible BOP surplus or BOP deficit.

### Table 4: Balance of Payments in 2011-12 (Actuals vs. EAC projections, in $ bn)

<table>
<thead>
<tr>
<th></th>
<th>Q1 11-12</th>
<th>Jul 11-Oct 11</th>
<th>PM’s EAC Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Deficit</td>
<td>-35.5</td>
<td>-54.5</td>
<td>-154.0</td>
</tr>
<tr>
<td>Exports of Goods</td>
<td>80.6</td>
<td>98.3</td>
<td>300.2</td>
</tr>
<tr>
<td>Imports of Goods</td>
<td>116.1</td>
<td>152.9</td>
<td>484.2</td>
</tr>
<tr>
<td>Net Invisibles</td>
<td>21.3</td>
<td>26.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Services exports</td>
<td>31.0</td>
<td>45.0</td>
<td>60.5</td>
</tr>
<tr>
<td>Services imports</td>
<td>18.9</td>
<td>26.4</td>
<td>39.5</td>
</tr>
<tr>
<td>Current Account Deficit</td>
<td>-14.2</td>
<td>18.6</td>
<td>-54.0</td>
</tr>
</tbody>
</table>

### Table 4: Balance of Payments in 2011-12 (Actuals vs. EAC projections, in $ bn)

<table>
<thead>
<tr>
<th></th>
<th>Q1 11-12</th>
<th>Jul-11 to Aug -11</th>
<th>Sep-11 to 20-Dec -11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Account FDI</td>
<td>19.6</td>
<td>13.8</td>
<td>72.0</td>
</tr>
<tr>
<td>FII</td>
<td>7.2</td>
<td>0.6</td>
<td>32.0</td>
</tr>
<tr>
<td>ECB Borrowings</td>
<td>2.5</td>
<td>1.5</td>
<td>14.0</td>
</tr>
<tr>
<td>NRI Deposits</td>
<td>2.9</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1.2</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.8</td>
<td>0.9</td>
<td></td>
</tr>
</tbody>
</table>

Source: RBI
Apart from difficulty in capital inflows, Indian economy prospects have declined sharply. Just at the beginning of the year, forecasts for India’s growth for 2011-12 were around 8-8.5% and have been revised downwards to around 6.5%-7%. It has been a shocking turnaround of events for Indian economy. Both foreign and domestic investors have become jittery in the last few months because of following reasons:

**Persistent inflation:** Inflation has remained around 9-10% for almost two years now. Even inflation after Dec-11 is expected to ease mainly because of base-effect. Qualitatively speaking inflation still remains high with core inflation itself around 8% levels. It is important to recall that the episode of 2007-08 when despite high inflation and high interest rates, capital inflows were abundant. This was because markets believed this inflation is temporary. Even this time, investors felt the same as capital inflows resumed quickly as India recovered from the global crisis. However, as inflation remained persistent and became a more structural issue investors reversed their expectations on Indian economy.

**Persistent fiscal deficits:** The fiscal deficits continue to remain high. The government projected a fiscal deficit target of 4.6% for 2011-12 but is likely to be much higher on account of higher subsidies. The markets questioned the fiscal deficit numbers just after the budget and projected the numbers could be much higher. This indeed has become the case. As highlighted above, persistent fiscal deficits play a role in shaping expectations over the currency rate as well.

**Lack of reforms:** There have been very few meaningful reforms in the last few years in Indian economy. Moreover, the policies seem to be getting increasingly populist. The government wanted to reverse this perception and announced FDI in retail but had to hold back amidst huge furor from both opposition and allies. This has further made investors negative over the Indian economy. As FII inflows are going to be difficult given the uncertain global conditions, the focus has to be on FDI.

**Continued Global uncertainty:** This is an obvious point with global economy continuing to remain in a highly uncertain zone. This has led to pressure on most currencies against the US Dollar.

All these reasons together have led to sharp depreciation of the rupee. The rupee has depreciated by nearly 20% against USD from Apr-11 to 20-Dec-11. In terms of 6 REER (Apr-Nov) and 36 REER (Apr-Oct) Rupee has depreciated by 10.44% and 7.7% respectively. The later numbers of REER are likely to show higher depreciation as well. During Lehman crisis, the two indices had depreciated by 9.3% and 9.9% respectively.

### IV. Outlook and Policy Measures

The above analysis shows that Rupee has depreciated amidst a mix of economic developments in India. Apart from lower capital inflows uncertainty over domestic economy has also made investors nervous over Indian economy which has further fuelled depreciation pressures. India was receiving capital inflows even amidst continued global uncertainty in 2009-11 as its domestic outlook was Positive. With domestic outlook also turning negative, Rupee depreciation was a natural outcome. Depreciation leads to imports becoming costlier which is a worry for India as it meets most of its oil demand via imports. Apart from oil, prices of other imported commodities like metals, gold etc will also rise pushing overall inflation higher. Even if prices of global oil and commodities decline, the Indian consumers might not benefit as depreciation will negate the impact. Inflation was expected to decline from Dec-11 onwards but Rupee depreciation has played a spoilsport. Inflation may still decline (as there is huge base effect) but Rupee depreciation is likely to lower the scale of decline.

**What are the policy options with RBI?**

**Raising Policy rates:** This measure was used by countries like Iceland and Denmark in the initial phase of the crisis. The rationale was to prevent sudden capital outflows and prevent meltdown of their currencies. In India’s case, this cannot be done as RBI has already tightened policy rates significantly since Mar-10 to tame inflationary expectations. Higher interest rates along with domestic and global factors have pushed growth levels much lower than expectations. In its Dec-11 monetary policy review, RBI mentioned that future monetary policy actions are likely to reverse the cycle responding to the risks to growth. India’s interest rates are already higher than most countries anyways but this has not led to higher capital inflows. On the other hand, lower policy rates in future could lead to further capital outflows.

**Using Forex Reserves:** RBI can sell forex reserves and buy Indian Rupees leading to demand for rupee. RBI Deputy Governor Dr. Subir Gokarn in a recent speech (An assessment of recent macroeconomic developments, Dec-11) said using forex reserves poses problems on both sides.

“Not using reserves to prevent currency depreciation poses the risk that the exchange rate will spiral out of control, reinforced by self-fulfilling expectations. On the other hand, using them up in large quantities to prevent depreciation may result in a deterioration of confidence in the economy’s ability to meet even its short-term external obligations. Since both outcomes are
V. Conclusion

Growing Indian economy has led to widening of current account deficit as imports of both oil and non-oil have risen. Despite dramatic rise in software exports, current account deficits have remained elevated. Apart from rising CAD, financing CAD has also been seen as a concern as most of these capital inflows are short-term in nature. PM's Economic Advisory Council in particular has always mentioned this as a policy concern. Boosting exports and looking for more stable longer term foreign inflows have been suggested as ways to alleviate concerns on current account deficit. The exports have risen but so have prices of crude oil leading to further widening of current account deficit. Efforts have been made to invite FDI but much more needs to be done especially after the holdback of retail FDI and recent criticisms of policy paralysis. Without a more stable source of capital inflows, Rupee is expected to remain highly volatile shifting gears from an appreciating currency outlook to depreciating reality in quick time.

Steps for E-Filing of Service Tax Return
Contribution by Pradip Narsingani

W.e.f. 01.10.2011 vide Notification No. 43/2011 – Service Tax, dated 25.08.2011 E-filing of Service Tax Returns (ST-3) made mandatory for all Assessees. Here are the steps for e-filing of service tax return.

- Steps for E-Filing of Service Tax Return:
  2. After login as assessee go to –> RET –> Fill ST-3 –> Fill
  a. After filling all the details click on “SAVE” button in the last page. A “confirmation view” screen will display the return in its entirety. Must verify for the correctness of details entered. Once it is confirmed that the entered details are correct, click on “SUBMIT” button.
  b. In case any modification is required, click on “MODIFY” button. The first entry screen will be displayed. Modification can be carried out in all fields. If it is desired that the details are to be entered afresh click on “CANCEL” button.
  c. After submitting return an acknowledgement with a number in the format “registration number Type of return Month and Year of the return” will be shown. This number becomes a reference number (Source Document number) for subsequent correspondences with the department in respect of the return.

Steps for filing Return through offline utility and then upload file to ACES application:

1. Fill up the Return data (USING EXCEL DOWNLOADABLE UTILITY)
2. Validating Sheets: Click on the “Validate this sheet” button
Reconciliation of Excise Records with the Cost Records:

Now, as the preparation and maintenance of cost records has been made mandatory and product group wise/service group wise profitability has to be reported to MCA in the reconciliation specific attention is required for preparation of cost records aligning all the cost statements with the Excise Returns/Service Tax returns.

Not only this, in case of a company having multi location plants and where there are inter plant transfers or Related Party Transfers, the company should exercise due diligence in the cost records as the assessable value for clearance of goods to other Plants and Related Parties, the Statutory Cost Records may be relied upon by the Excise Authorities as the costing there will have approval of Board of Directors and signature of Directors and Cost Accountant.

The top management must take note of the new developments wherein alignment of Excise records and Cost Records has already begun. The issue of Cost Audit orders in May 2011 are testimony to it wherein Cost Audit Orders were issued based on Excise Classification Codes.

Draft Product group codes have been released based on four digit HSN Classification Codes. Also the draft service group codes have been released. Please refer to the reconciliation statement given above where profit as per product group or service group has to be reported to Ministry of Corporate Affairs.

Apart from it, the companies are required to prepare the reconciliations in the following format as part of Cost Records:

### RECONCILIATION OF INDIRECT TAXES (for the company as a whole)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Assessable Value</th>
<th>Excise Duty</th>
<th>Service Tax</th>
<th>Cess &amp; Others</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Clearances</td>
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<td>Domestic</td>
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<td>Export</td>
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<tr>
<td>Stock Transfers (Net)</td>
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<tr>
<td>Others, if any</td>
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<tr>
<td>Total</td>
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<tr>
<td>Duties/Taxes Payable</td>
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<td>Duties/Tax Paid</td>
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<tr>
<td>Cenvat/VAT Credit Utilised-Inputs</td>
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<tr>
<td>Cenvat/VAT Credit Utilised- Capital Goods</td>
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<tr>
<td>Cenvat/VAT Credit Utilised- Input Services</td>
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<tr>
<td>Cenvat/VAT Credit Utilised- Others</td>
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<tr>
<td>Total</td>
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<td>Paid through PLA/Cash</td>
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<tr>
<td>Total Duties/Taxes Paid</td>
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<tr>
<td>Duties/Taxes Recovered</td>
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<tr>
<td>Difference between Duties/Taxes Paid and Recovered</td>
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<tr>
<td>Interest/Penalty/Fines Paid</td>
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</tbody>
</table>

4. Both files are saved in the same folder of your system where E-filing Utility is placed/ saved (while downloading the e-filing utility).

5. Upload XML file to ACES application: For uploading the XML generated by the E-filing Utility, login to ACES application and go to RET–> e-Filing–>Upload. On Upload screen provide the required information and browse to select the relevant XML file and submit the form.
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“First they ignore you. Then they laugh at you. Then they fight you. Then you win.”

Glimpse May 2012

33rd GMCS..ICAI..BHAWAN. (24.05.2012)

Blood Donation 33rd GMCS (27.05.2012)

CA. Nirav Shah at Art of Living (07.05.2012)

CPT Mock Test (27.05.2012)

CPT Mock Test (27.05.2012)

Initial Audition for Fashion Show (26.05.2012)

Interaction with Art of Living (07.05.2012)

Meeting of WICASA Chairman with Congress Leader (19.05-2012)

Meeting with WICASA-Chairman - Audition for Fashion Show (26.05.2012)

Polymech Plast Pvt. Ltd. (07.05.2012)

Study Circle Meeting (Alpa Gokhlan) (01.05.2012)

Study Circle Meeting (Alpa Gokhlan) (01.05.2012)