SKP COnnect

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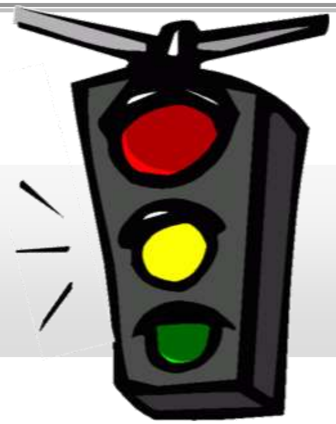
FDI in Multi-Brand Retail Trading-
It's a Wait and Watch !



The Indian Government is currently contemplating allowing Foreign Direct Investment of up to 51% in Retail sector. Probably prompted by increased inflation in food prices, the proposal to throw open India's the $450 billion retail market to foreign investors is however likely to be debated for a while in parliament, as such leaving a lot to speculation.

The department of industrial policy and promotion (DIPP), recently proposed to open up FDI in multi-brand retail trading (MBRT) up to 51 % albeit with certain conditions. The most significant of these riders being- a mandatory 50% investment in back-end infrastructure; including cold storage chain and warehousing.

The government has also suggested an amount of $100 million as minimum FDI in an MBRT project. So also such outlets would be permitted only in cities with populations of more than 10 lakh (2011 census), within a radius of 10 km around the municipal/urban agglomeration limits of such cities. Moreover the final decision as to whether or not to allow such front-end retail outlets to operate in a particular location would be left to the discretion of the state government.

In an attempt to ensure that smaller retail outlets are integrated into the value chain, the government has suggested a minimum of 30% of the sales turnover to be made to small retailers, either directly or through wholesale cash-and-carry units set up for this purpose. So also a minimum of 30 % of the value of manufactured items sourced (excluding food products) would have to be procured from the small and medium enterprises (SME). State governments will also have the liberty to set further

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INSIDE THIS ISSUE:

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Revision in Schedule VI-

New new format for financial statements by Indian companies

The Ministry of Corporate Affairs (MCA) recently hosted on its website a revised Schedule VI to the Companies Act, 1956 (Act), laying down a new format for preparation and presentation of financial statements by Indian companies vide notification dated 28th February, 2011** As per earlier announcement made by the MCA on its website, the revised Schedule VI was framed as per the existing non-converged Indian Accounting Standards notified under the Companies (Accounting Standards), Rules, 2006 and has nothing to do with the converged Indian Accounting Standards. The revised Schedule VI is effective from 1st April 2011.

The revised Schedule VI introduces various new concepts, disclosure requirements. The practical application of the revised schedule however, throws up a number of questions; the answers to which may not be straight-forward or may need additional guidelines from the MCA or the Institute of Chartered Accountants of India (ICAI).

An important feature of the revised Schedule is that the disclosure requirements of the erstwhile Schedule, which were considered to be redundant, have been omitted and certain further disclosure requirements have been added. It is pertinent to note that the existing accounting standards do not lay down any format for the presentation of the financial statements but lays down certain specific disclosure requirements. Hence the notification makes it very clear that the disclosure requirements of the revised schedule VI are in addition to the existing disclosure requirements of accounting standards. It is also worth noting that the revised schedule VI is not in accordance with the ongoing International Financial Reporting Standards (IFRS) convergence project.

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The revised schedule requires the presentation of minimum items on the face of the balance sheet and the profit and loss account in a prescribed format subject to the disclosure requirements in the accounting standards. Additional disclosures specified in the accounting standard shall be made in the notes to accounts or by way of additional statements, unless required to be disclosed on the face of the financial statements. Notes to accounts shall contain the information in addition to that presented in the financial statements and shall provide the narrative description or desegregation of the items presented in the financial statements and also the information of the item that do not qualify for recognition in the financial statements.

Key changes related to disclosure requirements of Balance sheet:

1. The revised Schedule VI prescribes a vertical format for presentation of balance sheet. Thus, a company will not have the option to use a horizontal format for presentation of financial statements.

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**http://www.mca.gov.in/Ministry/pdf/Schedule_VI_28feb2011.pdf

Revision in Schedule VI-

New new format for financial statements by Indian companies

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2. Current and non-current classification has been introduced for presentation of assets and liabilities in the balance sheet, which is more in line with the concepts used under Ind-AS/ IFRS. The application of this classification will require assets and liabilities to be broken into their current and non¬current portions.

3. Number of shares held by each shareholder holding more than 5% shares now needs to be disclosed.

4. Details pertaining to aggregate number and class of shares allotted for consideration other than cash, bonus shares and shares bought back will be disclosed only if such an event has occurred during a period of 5 years immediately preceding the balance sheet date.

5. Any debit balance in P&L account will be disclosed under the head “Reserves and surplus.” Earlier, any P&L debit balance carried forward after deduction from uncommitted reserves was required to be shown on the asset side of the balance sheet.

6. Specific disclosures have been prescribed for the share application money. The application money not exceeding the issued capital and to the extent not refundable will be shown separately on the face of the balance sheet. The amount in excess of subscription, or if the requirements of minimum subscription are not met, will be shown under “Other current liabilities”.

7. Capital advances are now required to be presented separately under the head “Loans & advances” rather than as part of “capital work-in-progress” or “fixed assets”.

8. Tangible assets under lease are required to be separately specified under each class of asset.

9. In the earlier Schedule VI, details of capital commitments were required to be disclosed. Under the revised Schedule VI, all commitments need to be disclosed.

10. The revised Schedule VI requires all defaults in repayment of loans and interest to be specified in each case.

11. The revised Schedule VI introduces a number of other additional disclosures. Key examples are:

a) Rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital

b) Terms of repayment of loans and period

c) In each class of investment, details regarding names of the bodies corporate, indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities, in whom investments have been made and the nature and extent of the investment made in each such body corporate (showing separately partly-paid investments)

d) Regarding investments in the capital of partnership firms, the names of the firms with the names of all their partners, total capital and the shares of each partner

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FDI in Multi-Brand Retail Trading-
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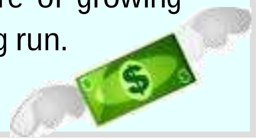
guidelines to ensure that local grocery units or kirana merchants as they are know are not adversely affected by this move.

> The Government ... is of the opinion that FDI in MBRT will only benefit small producers, given the benefits of more efficient distribution and warehousing. The government is also hoping that these would take care of growing food prices in the long run.



As of now however, there is no consensus between various government departments and ministries on opening up FDI in MBRT. While the ministry of Agriculture, Food Processing Industry and Planning Commission have supported 100 per cent FDI in MBRT, the department of consumer affairs (DCA) supports FDI participation in MBRT up to 49 per cent only. The department of pharmaceuticals has said that FDI in MBRT be included for the study on regulatory environment. The department of economic affairs is yet to give an opinion on the matter. While inter-ministerial consultations are still underway, the opposition has made their disapproval clear, stating their concerns over the future of the local mom and pop stores that are likely to lose business, irrespective of the many riders.

The Government however is of the opinion that FDI in MBRT will only benefit small producers, given the benefits of more efficient distribution and warehousing. The government is also hoping that these would take care of growing food prices in the long run.

Several International retail giants like Wal-Mart, Carrefour and Tesco, who already have a presence in India in one form or the other, have long been awaiting the government's approval for FDI in MBRT. How and when this closing chapter in India's FDI policy will actually come to pass is still a matter of wait and watch ■

Revision in Schedule VI

(Continued from page 3)

e) Aggregate provision for diminution in value of investments (separately for current and long-term investments).

Key changes related to disclosure requirements of Profit &Loss account:

1. The revised Schedule VI lays down a format for the presentation of P&L account. This format of P&L account does not list any appropriation item on its face. The classification of expenses is based on their nature and not on their function.

2. In addition to specific disclosures prescribed in the P&L account, any item of income or expense which exceeds 1% of the revenue from operations or Rs.100,000, whichever is higher, needs to be disclosed separately.

3. Net exchange gain/loss on foreign currency borrowings to the extent considered as an adjustment to interest cost needs to be disclosed separately as a finance cost ■

A Toy Story–

An interview with Pradeep Parmar, Business Head India, Simba Toys India Pvt Ltd

Simba Middle East, a Dubai-based toy company, entered India in the year 2009. Having been here done that Pradeep Parmar, Business Head India, Simba Toys speaks about the Company's experience doing business in India

1. What were the main reasons for Simba Toys' decision to set up in India?

   Pradeep: Simba Toys decided to enter India for the same reason as any other MNC looking at investing in India- Its tremendous market potential is not something any Multi-national looking at expanding can afford to ignore.

   Simba Toys is based in Europe. When its subsidiary in Dubai- Simba Middle East, was looking at expansion...India offered the best bet.

2. What is the potential of the Indian toy market?

   Pradeep: India offers huge potential- the toy market is estimated to be around Rs. 1,500 crore (Approx USD 330 mn). Besides there are certain gaps in the Indian toy market, which we have been able to target. The 'impulse buying' market was fairly untapped in India. With toys priced from as little as Rs. 49 up to Rs. 20000, the lower ranged toys do well when it comes to impulse buying.

3. Why did you decide on Mumbai in Particular?

   Pradeep: Since Simba Middle East is based out of Dubai, the proximity to Mumbai and the easy connectivity was one of the key factors. Besides Mumbai being India's financial hub most of our partners like Disney,..... as well as major retailers like Reliance, Pantaloons, Shoppers Stop, etc. have their offices in Mumbai.

4. Did you face any difficulties when setting up in India? How did you overcome them?

   Pradeep: From the very beginning we had partnered with SKP, who guided us through the set up process. All the required procedures were duly taken care of and we did not face any difficulties as such.

5. Can you tell us about some of your primary concerns in doing business in India and how you got around it?

   Pradeep: Doing business in India has its own dynamics, which can make the process both challenging and interesting. Most MNCs come to India with huge expectations considering the size of the market. However India does not have as many retail giants as compared to other countries. One has to therefore deal with several different retailers and distributors and twice as many people in attempting to penetrate the market.

   Another major concern is the high employee turnover rate.. There are too many opportunities open to employees in the lower and mid-level segments, as such retaining employees for over even a year could be a challenge. This is typical of any retail consumable sector in India

6. Did you have to customise toys for the Indian market India?

   Pradeep: Toys are a fairly universal commodity. Moreover kids in urban areas are as exposed to characters toys thanks to movie releases as anywhere in the world.

   That being said, Indian parents are constantly looking at the educational value of toys. We therefore have an Arts and Fun range of toys that is doing very well in India.

7. Could you tell us about any specific marketing venture or product (Stumpy the mascot for ICC World Cup) that was exclusively for India?

   Pradeep: Yes we did enter into an exclusive alliance with the ICC to manufacture and merchandise the official mascot for World Cup 2011- 'Stumpy'. A three dimensional plush mascot Stumpy was made available in various

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A Toy Story– An interview with Pradeep Parmar

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sizes ranging from 7 to 26 inches, priced between Rs 299 to 2499.

While being a good experience, we did realise that India is not yet ready for sports merchandising. Stumpy was definitely a new concept and the whole venture was ahead of the curve.

8. What other surprises did India have in store for you?

Pradeep: Something new and interesting pertaining to marketing toys in India is the importance given to advertising, especially on television. Retailers want to know if we will be investing in advertising before agreeing to stock items. In fact television channels can really drive business.

We have started advertising for our product 'Squab' on Nickelodean and have actually manage to sell 60,000 units in the past eight months.

Later this month, we will be advertising merchandise for the movie Cars2 on Disney, Disney XP and Hungama TV. We also advertise our magic tricks product 'Pick a Trick' on Nickelodean which has boosted sales tremendously.

9. Do you feel that your decision to set up in India was a good one? Have you succeeded in achieving your immediate goals?

Pradeep: Yes certainly. We do understand that we cannot expect our business to grow overnight. A minimum of 18 months is required before you can hope to achieve any results. We have however been fairly successful, having set up as many as 40 distributors, which we hope to increase to 60 in the next twelve months. Our toys are now present in more than 1000 stores pan India.

10. What would be your advice to Companies looking at setting up in India?

Pradeep: Set a definite and realistic goal. It is crucial to have your first three years clearly chalked out with detailed sales and marketing plan to succeed. Moreover don't expect overnight success. You need to give your business time to grow, hence planning and clarity on the front is crucial.

For any international company, it is important to be in India. This is not difficult if you plan well and take the right steps. Research in this regard is crucial.

Wooing a cricket crazy nation- Simba Toys entered into an exclusive arrangement with the ICC to manufacture and merchandise the official mascot of the 2011 World Cup– Stumpy

It is also important to get the right people working for you. Those who understand the local business and know how it functions.

11. How would you rate SKP's performance in your India experience?

Pradeep: SKP has helped us in the set up process and also with company secretarial work. Our experience with them has been very positive, considering they are very prompt and service oriented, which I would say is the key to a successful client relationship ■

"For any international company, it is important to be in India. This is not difficult if you plan well and take the right steps. Research in this regard is crucial," *Pradeep Parmar– Business Head India, Simba Toys*

Leveraging Existing Technologies for Efficient Outsourcing

For many years now, Technology has been the buzzword in the outsourcing world. Most of the research reports talk about how technology is going to be the differentiator between Vendors and how Technology is one of the main reasons for companies to **adopt outsourcing. And here 'Technology' has become synonymous to ERP** systems, Workflow systems, Cloud Computing, etc. But having all this technology **does not necessarily mean that 'you get what you want when you want'.**

The requirement of the Finance department is always fluid and is based a lot on the requirements of internal auditors, statutory auditors or the current year's business drivers. Also, for SMEs, who are in their nascent stage with 10–15 resources in their Finance department, this may in fact become a bottleneck. Shifting their processes to another technology, getting users trained on something like this and getting benefits in the near future seem to be a daunting task. They want to first look into their processes, clean up their accounts, ensure that their general ledger is clean and maintained correctly and create meaningful MIS at the end of the day.

SKP works with many SMEs and with larger clients who have ERP systems installed. The pressure of providing information or completing tasks within time is not much different between the two sets of clients. Every person in Finance department knows that when push comes to shove, Excel is the application everyone uses for downloading data, collating it and then creating reports. Technology or not, this is what it eventually boils down to.

Knowing the constraints that outsourcing partners work in, SKP looked at using Technology in a different manner. Instead of pursuing behemoth technological infrastructure, SKP looked at technology for simplifying the basic tasks. Excel is a powerful tool if used to its fullest potential. The full function range within Excel can reduce the number of hours required to extract relevant information out of voluminous data. Add to this Macros and you have a recipe for an efficient and error-proof method for getting the desired results.

It is a fact that during month-ends, Finance departments download data from ERP systems and accounting packages. These are multiple downloads in different excel sheets. The data is then collated using Vlookup, then Pivot tables are created and then the results of the Pivot tables are copied to the final report sheet to prepare the MIS. This whole exercise is manual, time consuming and error prone. At SKP, we looked into all such processes, wrote down the rules for collation of data and with the help of macros automated the complete task. What would take hours of work now gets done in a matter of minutes. More importantly, the review time is saved since the review checks are built in within the Macro itself. The processors are now left with time to actually

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Can Accounting Firms forming LLPs act as Statutory Auditors under the Indian Companies Act, 1956?

The concept of Limited Liability Partnership (popularly known as LLP) a form of business organization recognized world wide has now been introduced into India after the enactment of Limited Liability Partnership Act, 2008. An LLP combines the advantages of both the Company and Partnership into a single form of organization. In an LLP, all partners have a limited liability for each individual's protection within the partnership, similar to that of the shareholders of a corporation. However, unlike corporate shareholders, the partners have the right to manage the business directly. An LLP also limits the personal liability of a partner for the errors, omissions, incompetence, or negligence of the LLP's employees or other agents.

The Salient features of an LLP

- LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.
- The LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name.
- The LLP is a separate legal entity. LLP is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.
- Further, no partner is liable on account of the independent or unauthorized actions of other partners. Thus, individual partners are shielded from joint liability created by another partner’s wrongful business decisions or misconduct.
- Mutual rights and duties of the partners within an LLP are governed by an agreement between the partners or between the partners and the LLP as the case may be. The LLP, however, is not relieved of the liability for its other obligations as a separate entity.
- Since LLP contains elements of both ‘a corporate structure’ as well as ‘a partnership firm structure’ LLP is called a hybrid between a company and a partnership.
- No limit on maximum number of Partners

Considering the salient features of LLPs, it would definitely be advantageous for a firm of Chartered Accountants to convert itself into an LLP. However, although LLP Act came into operation from 1^{st} April 2009, firms of Chartered Accountants were not converting themselves into LLPs. The reason for the same was that as per the provisions of Section 226(3)(a) of the Companies Act, 1956 a ‘body corporate’ is not eligible for being appointed as Statutory Auditor of a company and as per Section 3(1) of the LLP Act, 2008, an LLP is considered as ‘body corporate’. This would imply that an LLP would not be eligible to be appointed as Statutory Auditor of a company.

In order to overcome this constraint, representation was made by the Institute of Chartered Accountants of India (ICAI) before the Ministry of Corporate Affairs wherein ICAI had submitted that an LLP of Chartered Accountants should be allowed to be appointed as Statutory Auditor of companies. Pursuant to this

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Can Accounting Firms forming LLPs act as Statutory Auditors under the Indian Companies Act, 1956?

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representation, Ministry of Corporate Affairs vide General Circular No. 10 of 2011 dated 04-04-2011 has given a clarification regarding the word "Partnership" for the purpose of Chartered Accountants Act, 1949, Cost and Works Accountants Act, 1959 and Company Secretaries Act, 1980.

The circular states that -

"The word "Partnership" wherever occurring in the Chartered Accountants Act, 1949, the Cost and Works Accountants Act, 1959 and the Company Secretaries Act, 1980 shall mutatis mutandis be construed as including those limited liability partnerships (LLPs) where all the other partners are natural persons (individuals) and that the word "partner" shall also be construed accordingly.

With this, Ministry of Corporate Affairs has given a go ahead for CA firms forming LLPs to act as Statutory Auditors. This will enable the small and medium sized firms to enhance their capacity by including more number of partners in their firms which will help them to grow much bigger. More so, this would enable these firms to form multidisciplinary LLPs with cost and works accountants, company secretaries, lawyers as well as chartered engineers once suitable amendments are carried out in the legislations governing their regulators like the ICAI, the Institute of Company Secretaries of India (ICSI) and the Institute of Cost and Works Accountants of India (ICWAI).

Further, the liability of each member being limited to his capital contribution is an important advantage. Thus, a firm of Chartered Accountants can also operate like a corporate entity with limited liability of its members. This is a real boost for the smaller firms and it will give them the wherewithal to withstand the competition posed by larger firms ■

Leveraging Existing Technologies for Efficient Outsourcing

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do some analysis and provide useful comments while presenting the report to the Client.

Or take the example of preparing month-end Journal Entries based on the data download. Again, doing this manually requires the resource to be trained completely on the accounting system of the client. But if this knowledge (rules if you must), is transferred to Excel Macro, the job can be done by any resource and only the final review can be done by a trained resource.

These are simple techniques but with large reaching effects. In the lean economic times, companies were struggling to find ways of cutting their costs. SKP instead looked at becoming more efficient and looked at how the same set of resources could be freed to take on more work. This meant making their day to day working simple, less error prone and reducing the review times. All achieved through smart use of technology and without having to invest in new platforms.

Sometimes it makes more sense to simplify basic tasks rather than blindly investing in technology shifts. New technologies do have their place, but a lot can be achieved by smart use of existing technology both in terms of efficiency and error proofing. The eventual impact is directly on the bottom line of the company and thus should be looked into very seriously by all players ■

Holidays at SKP June– September 2011

	Occasion	Day	Pune	Mumbai	Hyderabad	Delhi
13th August	Raksha Bandhan	Sat	Yes	Yes	Yes	Yes
15th August	Independence day	Mon	Yes	Yes	Yes	Yes
22nd August	Krishna Janmashtami	Mon	Yes	Yes	Yes	Yes
1st September	Ganesh Chaturthi	Thur	Yes	Yes	Yes	No

SKP is a full fledged professional services group in India, with offices in 5 cities and a client base of over 250 clients from 35 countries. Our 500 plus member team of professionals provides a wide range of services such as- crossborder business set up, corporate services, international tax and transfer pricing, assurance and risk management, and outsourcing services. You can find out more about us at www.skpgroup.com

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