# TIRUPUR BRANCH OF SICASA

# Monthly News Letter

## JUNE, 2025

Issue No. 38

**The Institute of Chartered Accountants of India**
**(Setup by an Act of Parliament)**

# TIRUPUR BRANCH OF SICASA

| SICASA OFFICE BEARERS 2025 - 26 | |
|---|---|
| CA. VISHNU KUMAR M | SICASA CHAIRMAN |
| MS. AISWARYAA M R | VICE-CHAIRPERSON |
| MS. KEERTHANA S | SECRETARY |
| MR. ASWIN S A | TREASURER |



Your views / suggestions / comments are Welcome. Kindly send your Contributions in the form of articles to tiruicai@gmail.com

**Published By**

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Good day to each and every one of my fellow learners,

Let's welcome June with smiles and enthusiasm! With a lineup of events planned one after another, this month promises to be filled with energy, engagement, and memorable experiences. Offering each one of us a chance to participate, contribute, and grow.

This year marks 36 remarkable years since the formation of our branch—a journey filled with dedication, growth, and collective achievements. To honor this milestone, we are proud to announce that, for the very first time, we will be organizing an Annual Conference exclusively for our members.

To all our dear students: as you prepare to complete your examinations, we encourage you to look ahead and take the next step by becoming a member of our branch. By doing so, you will become part of a vibrant community committed to learning, growth, and excellence.

It gives me immense pride to announce that we will be organizing our Students' Conference on June 27th and 28th. This much-anticipated event is dedicated to celebrate the enthusiasm, talent, and potential of our student community.

I warmly encourage each and every one of you to not only attend but also actively participate in the conference. Whether it's by contributing your ideas, showcasing your skills, or simply engaging with your peers, your involvement will make a real difference.

Remember, you are the future of our branch, and your enthusiasm and involvement today will shape the strength and direction of our community tomorrow. Let's come together to make this conference a grand success and a truly memorable experience for everyone involved.

June is the month where dreams meet action—half the year behind us, half still ahead. It's the perfect time to reset, refocus, and rise

With warmest regards

CA. Vishnukumar M,

Chairman,

Tirupur Branch of SICASA.

# THE FOREIGN EXCHANGE MANAGEMENT ACT, 1999

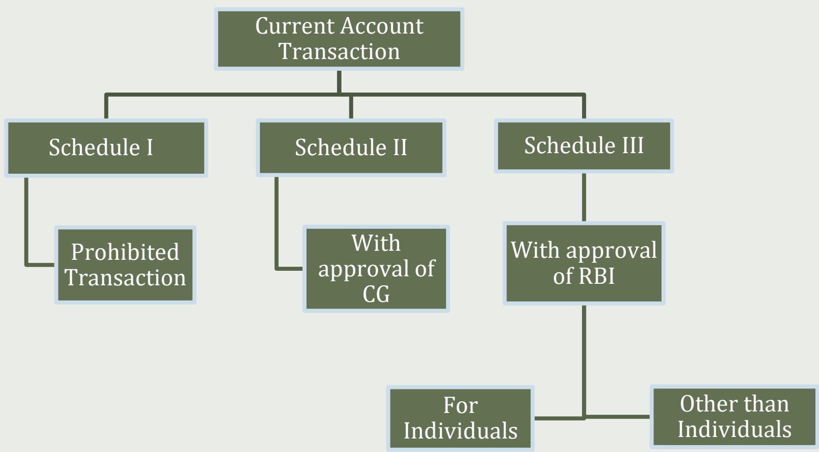
## Current Account Transactions [Section 5]

Section 2(j) – It means a transaction other than a Capital Account Transaction and includes

- Payments – Ordinary course of foreign trade
- Payments – Form of interest on loan or income from investment
- Remittance – Living expenses of parents, Spouse or children living abroad
- Expenses – Connection with foreign travel, education etc.

Generally, this transaction freely permitted unless specifically prohibited.

Central government(CG) has power to impose reasonable restrictions in consultation with RBI.




**Schedule I**

**[Drawal of Foreign Exchange is Prohibited]**

***( 5 Remittance and 3 Payments)***

Remittance

- Lottery Winning
- Income from racing / riding
- For purchase - lottery ticket, banned/prescribed magazine, football pools, sweepstakes
- Dividend by any company which requirement of dividend balancing is applicable
- Interest income on fund held in Non-resident special rupee scheme

Payments

- Commission on export towards equity investment in joint venture/wholly owned subsidiary abroad of Indian Companies
- Commission on export under Rupee state route
- Call back services of telephones

**Schedule II [Require prior approval of CG]**

| | | |
|---|---|---|
| Ministry of Human Resource Development | Cultural Tours | Remittance of prize money/sponsorship of sports activity abroad by person(other than International/National/state level sport bodies)if amount exceeds US $ 100,000 |
| Ministry of Finance | Advertisement in foreign print media (other than promotion of tourism, foreign investment and international bidding(exceeding US $ 10,000) by state government and its public sector undertaking(psu) | Remittance for membership p & I club |
| Ministry of surface transport | Remittance of freight of vessel | Payment of import through ocean transport |
| | Remittance of Container detension charge | |
| Ministry of information and broadcasting | Remittance - Hiring charges of transponder by TV channesl | |
| Ministry of Communication and Information Technology | Remittance - Hiring charges of transponders by Internet service providers | |
| RC from Director general of shipping | Muiti modal transport operators - Remittance to agents abroad | |

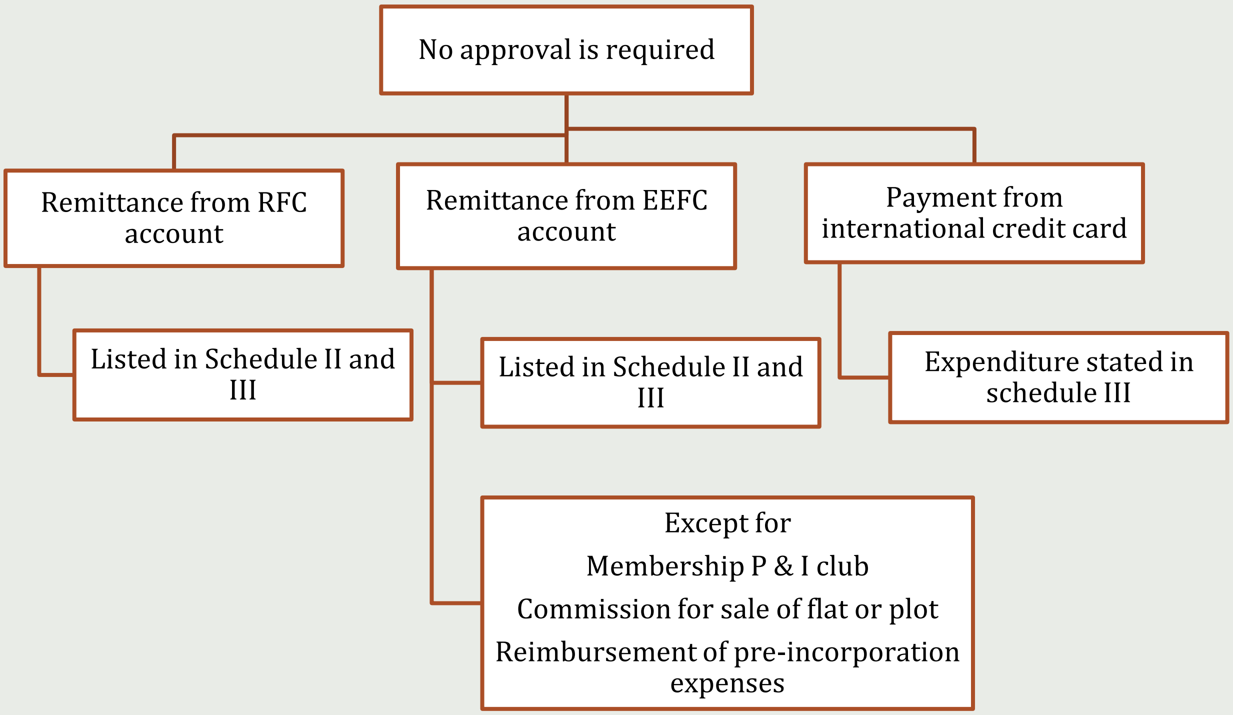
**Schedule III [Require prior approval from RBI]**

***For Individuals – Following purpose within the limit of USD 250,000 only***

- Private visit to any country(except Nepal and Bhutan)
- Gift or donation
- Going abroad for employment
- Maintanance of close relatives abroad
- Travel for business or attending conference or speciallised training or meeting medical expenses or attandant to a patient
- Other current account transaction
- Emigration*
- Expenses in connection with medical treatment abroad*
- Studies abroad*

*These expenses can remit more than the limit prescribed (i.e Can remit upto actual expense without RBI's approval.

**Exemptions**




**RAMADEVI. A**
**SRO0838160**

# Derivatives

## Derivative:

Derivative as the name suggest, it derives value from the underlying asset. Those assets could be stocks, bonds, commodities and currencies. To call an instrument to be derivative, it should satisfy the below three conditions:

- The instrument should derive value due to change in the price of underlying asset.
- The settlement happens at the future date.
- The initial Payment made could be either nil or insignificant amount

Derivatives could be exercised by entering into either of these below stated contracts:

Forward Contract

**This is simply known as customised contract, where the price of goods bought/sold are at specified price on future date and can be exercised on maturity**

- **Example :** An entity X sold goods worth $1000,000 at spot rate of 85/$ payable after 3 months, the exporter X strongly belives that the rupee would get stregnthen and will reach to 80/$ which will effectively make him loss of 5/$ ie., 50lakh Indian rupees, being worried about it X enters into forward contract with bank. In this contract banker promises to pay him 85/$ after 3 months irrespective of the prevailing price in the subsequent 3rd month.
- If Rupee strenghtens to 80/$ after 3 month, then the Profit of 50 Lakh Indian rupee would have been unrealized income. then the loss of 50 Lakh Indian rupee will be dodged.
- If Rupee gets weakened to 90/$ after 3 month, then the loss of 50 Lakh Indian rupee will be dodged.
- 85/$ is the specified pre-determined price to be transacted in the future date.

Future Contract

**This is simply known as standardized contract, where the price of the goods bought/sold are at fixed price on the future date and can be exercised at any time**

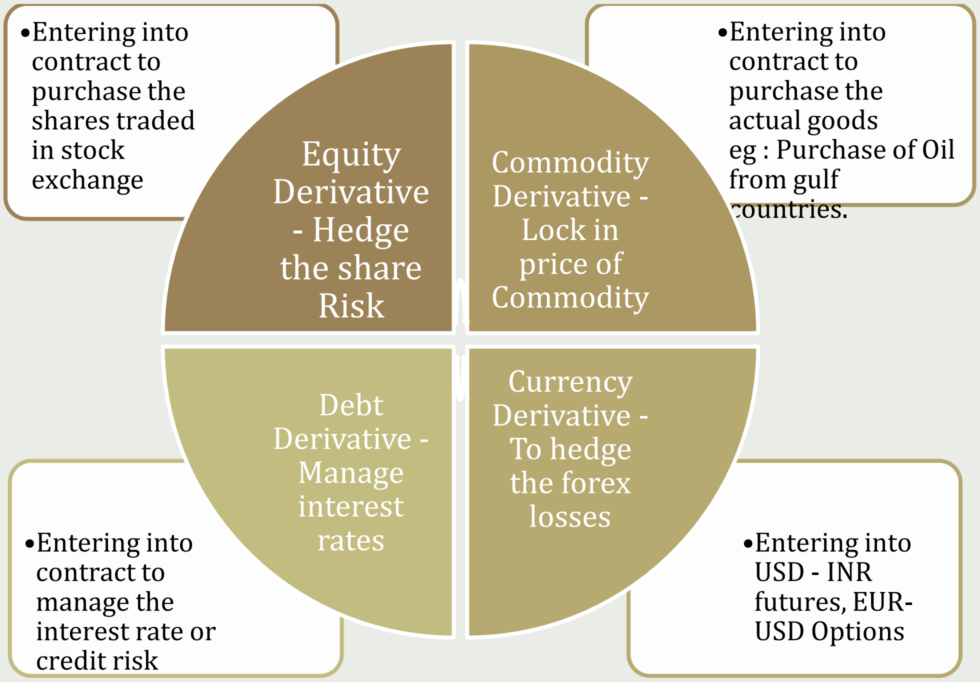
- **Example :** A gold trader buys Gold Futures on MCX to lock in at Rs.10,00,000. If gold price rises, the trader gets profit. If it falls, the trader lose the amount invested, those unrealized profit/loss are settled Mark to Market(MTM) where it gets credited in the Margin Account.
- Once the gold trader exits the transaction then the Price at the time of exercise (-) Locked in price will be the profit/loss on the derivative.

Options

**This is the contract that gives the holder of the derivative the right to buy/sell the asset at fixed price on or before the specified price without any further obligation**

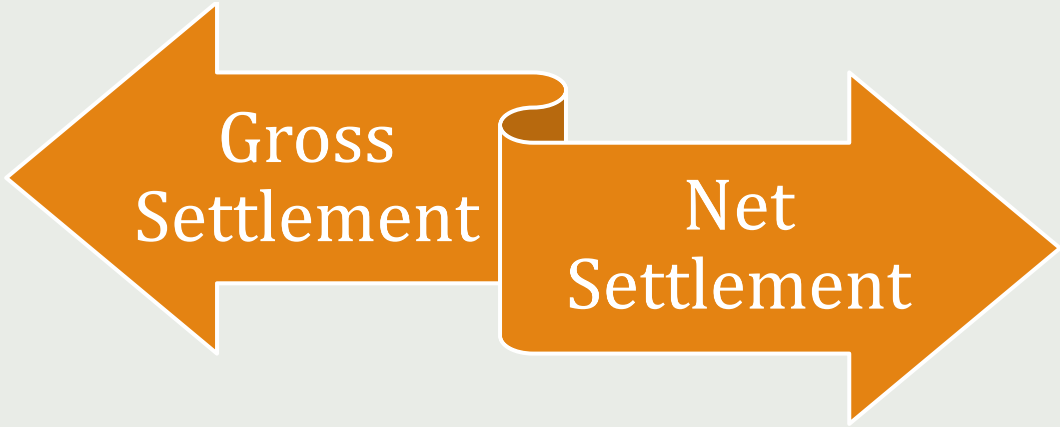
- **Example :** TCS Share price as on today(28th May) being Rs.3497.70/share which is expected to grow to Rs.3800 by the end of June considering their future business plan, now investor can wish to purchase those share at future date but before the end of june by amount less than 3800 ie., investor can pay the premium price of Rs.100 today to lock to purchase the share at strike price Rs.3600 at future.
- The Share price increases to Rs.3790, then the value derived by derivative is Rs.3790(-)100(-)3600 = Rs.90/per share.
- If the share price suppose falls to Rs.3300, then investor not exercising the option will lead to overall loss of strike price of Rs.100 only

## Type of derivative by Underlying asset




By entering into the above stated contracts with assets falls in the scope of any of the above stated 4 categories, the one who wish to invest in shares and securities or purchase commodities for the businesses or wish to avail cashflows from foreign countries or the exporters can hedge their risk, but it can be double edged sword too, where there are chances of price getting deflated and the risk of paying more than actual cashflow may arise.

## Settlement in case of derivatives:



### a) Gross Settlement:

Gross Settlement happens where there's an actual transfer of an underlying asset by full payment without netting or setting off the prices between the parties.

Example : Mr. X entering into the commodity derivative contract for the purchase of Oil from the Middle east, they locked the price of $1/liter of oil to be purchased on 12th of June, this is a forward contract and on the date of maturity, Mr. X pay will transfer $1/liter for oil and obtain actual oil in the course of business.

### b) Net Settlement:

Net Settlement happens when there's no actual transfer of asset but the difference between the price at which contract has been entered and the current price shall be set off and paid to the buyer if there's surplus

Example : Mr. X entering into the contract to purchase oil in MCX after one month at price of $1000, but after a month the price has reached to $1500, in this case Mr. X instead of purchasing the actual commodity(Oil), he can avail $500(1500-1000) as profit and get the cashflow.

Every Derivative other than Commodity derivative execute at net settlement, while in case of commodity derivative the applicable IND AS apply.

For example, Tata Motors enter into commodity derivative contract to purchase the spares by paying the whole cash in 3 months at fixed price. Then the spares actually purchased is attracted by IND AS 2 over IND AS 109.

## Accounting in case of derivatives:

At the inception of derivative contract, it is recorded at the Fair value of the underlying asset as per IND AS 109, the fair value of the asset can be availed using IND AS 113. Once the derivative has been initially recorded in the books, it has to be restated every year to the fair value prevailing on the reporting date, the gain or loss should be taken to the Profit and loss account every year with respective **Derivative asset when there's an actual gain and Derivative liability when there's an actual loss.**

Example : XYZ Ltd agreed to purchase $20,000 from Axis bank in future on 31/03/2026 for a rate equal to Rs.80/$ and the contract is entered on 01/04/2025, the company is listed and has to report financial statements every quarter. The following were the market value of dollars on each reporting date:

30/06/2024 – 85/$, 30/09/2024 – 83/$, 31/12/2024 – 75/$ and the spot rate on 31/03/2026 is 78/$.

Initially the derivative is recorded at nil value as there is no actual payment at the beginning of year, but on every reporting date it has to be remeasured irrespective of not recording at initial date.

On 30/06/2025, Derivative asset is created as value on reporting date is higher than contract price letting XYZ ltd to pay less when the whole market is trading at 85/$

Derivative Asset A/c Dr. 1,00,000

To Gain on Measurement of assets A/c 1,00,000

((85-80)*20,000), Asset Balance – Rs.1,00,000

On 30/09/2025, the price has been dropped to 83/$ on reporting date and the derivative asset has to be remeasured as of follows

Loss on Measurement of assets A/c Dr. 40,000

To Derivative Asset A/c 40,000

((83-85)*20,000), Asset Balance – Rs.60,000

On 31/12/2025, the price has been dropped to 75/$ on reporting date and the derivative asset has to be remeasured as of follows

Loss on Measurement of assets A/c Dr. 1,60,000

To Derivative Asset A/c 60,000

To Derivative Liability A/c 1,00,000

((75-83)*20,000), Asset Balance – Rs.0, Liability Balance – Rs.1,00,000

Finally on reporting date, the spot price on 31/03/2026 has been increased to 80/$ and the accounting of it as follows

Bank USD A/c Dr. 15,60,000

Derivative Liability A/c Dr. 1,00,000

To Bank INR A/c 16,00,000

To Gain on Measurement of assets A/c 60,000 (balancing figure)

Asset Balance – Rs.0, Liability Balance – Rs.0

The overall net effect of excess paying Rs.2/$ (80-78) ie., 20,000*2 is 40,000 is loss in entering into derivative contract as we're paying 80/$ while market rate is 78/$.

The same is entered in the books of account by remeasurement as follows

30/06/2025 Gain on Remeasurement – Rs.1,00,000

30/09/2025 Loss on Remeasurement – Rs.(40,000)

31/12/2025 Loss on Remeasurement – Rs.(1,60,000)

31/03/2026 Gain on Remeasurement – Rs.60,000

Net effect of accounting in books as per IND AS 109 Rs.(40,000)

## Conclusion:

Derivative play a vital role in modern financial market and client places, they offer a significant benefit when used wisely with proper understandings. However, they also carry high risk due to their volatility factor and counterparty defaults, making it double edged sword.

For preparing Financial Statements, understanding the accounting of derivative contracts is critical due to their complexity. Misclassification or incorrect treatment can lead to misstated profits. Therefor careful attention must be paid to both recognition and subsequent measurement of derivatives. A disciplined accounting approach will ensure both compliance and reflect true financial risk and position of the business.

**RAVIRAJ S.B**
**SR0756258**

# PHOTO GALLERY



ONE DAY SEMINAR ON 17TH MAY



HALF DAY SEMINAR ON 24TH MAY



NATIONAL TALENT SEARCH 2025 ON 31ST MAY

## Telegram Channel Link

https://bit.ly/tirupursicasa

## Whatsapp Channel Link

https://bit.ly/tirupur-sicasa

## Instagram Link

https://bit.ly/instatupicai