

## EDITOR'S NOTE

Once again we are thanking all our readers, for the marvelous support and creative guidance you all provided us in the juncture of completion of two years of circulation of "The Emirates Chartered Accountant". The eight volume of this newsletter reaches you during the Holy Month of Ramadan. Wishing you all "Ramadan Kareem". May the God shower your path with light and knowledge. May this month be an enlightening celebration to all of you and may this Ramadan reminds you to forgive.

Proper Financial Advice is one of the key factors for any business to be successful in the market. The Senior Consultant in Emirates Chartered Accountants Group CA. Prem Kumar Nambiar who has got more than 30 years of experience in this field including in big four audit firms has shared some of his thoughts on the importance of Financial Advices to the SMEs under the article "Necessity of Financial Advice to SME". He has highlighted the importance of need of proper financial guidance to the entrepreneurs and how vigilant an entrepreneur should be while choosing a financial expert for this purpose. I am sure the reader will enjoy the article.

In another article, my colleague, Mr. Vijesh Vaniyan, the Asst. Manager in Company Incorporation Division has described the special features of different offshore authorities available in UAE and the benefits of having an offshore company for any businessman in general.

The third article "Basics on Working Capital Management" explains the importance of working

capital requirements and how wisely it should be managed by the finance head in any business. The article was written by my colleague Mr. O.M. Abdullah, Asst. Manager in Corporate Finance Division of the group. Student Editor Sakkira Hamza has done an article on the importance of Internal Check and Internal Control for smooth functioning of business operations.

This edition of "The Emirates Chartered Accountant" will be reaching you while many of you are on summer vacation. Still we expect this edition will reach you through soft copy by way of mail. Wish you all a good read ahead.



CA. Manu Nair  
CEO

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# NECESSITY OF FINANCIAL ADVICE TO SME

CA. Prem Kumar Nambiar  
Senior Consultant



Doing business has become a fad amongst the young minds especially youths who are in their twenties and early thirties. The UAE in general and Dubai in particular offers many free-zones where it is easy to set up a business

entity within a week. Most of these entities come under the SME category.

The idea of starting a business is good. But it should be after doing proper homework. Many potential entrepreneurs do half of their homework by gathering information from various sources which may not be very authentic or reliable.

Once the line of business activity is identified, the most important requirement before exploring into the business venture is financial advice. The financial information should be discussed with a financial expert who has the expertise and is capable of carrying the potential entrepreneurs through his gestation period. It is like navigating the boat through the turbulent waters to the other side of the shore.

Majority of the new SME entrepreneurs are career oriented businessmen who wants to become good and successful entrepreneurs visualizing a great future in the business domain. It is an established fact that a sensible and discreet approach is imperative to new entrepreneurs who are venturing into the business realm submitting their body, mind and head into the endeavor with great hope of success. This anticipation of success is so vital and sacred for them not only because their caliber is questioned but their very survival hinges on its success. A prudent financial

planning coupled with good market knowledge will definitely contribute significantly in the success of a new venture.

The survival of a business entity depends on its careful and sensible utilization of its financial resources. How to achieve this objective? This is where the role of a financial advisor/expert comes in being.

In the beginning itself a good financial advisor/expert will be able to guide the entrepreneur as to how the initial contribution of funds should be prudently employed so that wasteful and unwanted expenses could be avoided. This will also help to minimize the initial financial burden.

The role of a good financial advisor/expert is a continuous process and it should be so if the business entity has to have a smooth sailing.

***“A sensible, vigilant and cautious financial approach is the essence of a successful and blossoming business venture. To achieve this objective both the entrepreneur and the financial consultant have equal role to play.”***

A good financial advisor/expert can easily prioritize the important areas where the financial resources have to be deployed. The area of deployment depends on the type of industry. In some cases it could be in inventory, sometimes in human resources, elsewhere it will be fixed assets and so on. In the same industry or in the same business the priority may change from time to time as this depends on a significant number of factors both external and internal.

In the initial stage, the business progress should



be evaluated on a monthly basis. This helps not only in comparing the actual with the budget (variance analysis) but also provide important insight into the various types of recurring expenses needed for the business in the future. These types of information will help in planning the future business strategy, avoiding any future trouble. Timely and pertinent intervention could go a long way in stabilizing and consolidating the business in the initial phase itself. The role of a good financial advisor/expert is crucial and inevitable at this critical phase.

In this part of the world the role of a good financial advisor/expert has not been taken seriously by



many SME units. Business units which could have been survived and business units which are still struggling could have easily overcome their misfortune had they been able to seek and utilize the expertise of a good financial advisor/expert. Similarly there are many SME units who are running their business for years without any significant progress due to lack of financial guidance. These entities could have grown into big entities had they been guided judiciously. Lack of awareness of financial guidance could be one of the reasons.

Continuous financial advice and guidance is akin to continuous education program. Financial advisory and consultancy firms should take bold initiative in popularizing the need, benefits and necessity of

financial guidance. They should conduct seminars, meetings, discussion groups, etc. amongst the business community to enhance their awareness. This will not only help the business community in a long way but also understand the important and significant role of financial advisor/expert in the field of business enhancement. Financial advisors and experts can play a decisive role in the society as a mentor to the business community just like a doctor to a patient –identifying the illness and providing the right cure.

Financial consultants can also be a fellow traveler with the business community. This will be beneficial to both of them. There are many areas where the business community can be provided advice or guidance on some of the following matters of which they are not even aware of like:

1. Financial benefits or advantages from a new government guideline.
2. Economic benefit from a new credit policy outlined by the Central bank.
3. Advice on an impending financial or economic crisis so as to take the necessary precaution to reduce or eliminate its impact.
4. Providing prudent financial advice to take advantage of the credit facilities provided by the banking sectors to SME.

In short a sensible, vigilant and cautious financial approach is the essence of a successful and blossoming business venture. To achieve this objective both the entrepreneur and the financial consultant have equal role to play. ■

# “Being in off the shore .....”

## Offshore companies in UAE

**Vijesh Vaniyan**

Asst. Manager Business Development - Company incorporation division.



An offshore Company is a legal business entity established in an offshore financial center or under a specific legislation which guarantees some special status for the offshore companies formed under its jurisdiction. It generally enjoys tax exemption and a high level of privacy and security.

An offshore Company owned by a single person can opt to be treated as an exempted entity for income tax purposes, which makes it absolutely free from income-tax.

Offshore investment refers to investing one's money in a country other than one's own country of residence. Offshore investments are a commonly accepted solution for reducing excessive tax burdens. The advantages are, it is legally recognized, considerably less expensive and simple formation norms. Besides, tax benefit is the driving force behind offshore activity.

### **Offshore Authorities in UAE.**

Presently there are four offshore authorities through which offshore entities can be incorporated in UAE. The Emirate of Dubai offers offshore company registration in the Jebel Ali Free Zone Authority (JAFZA) domicile.

The Emirate of Ras Al Khaimah(RAK) has two offshore domiciles. The Ras Al Khaimah Free Trade Zone (RAK FTZ) and the Ras Al Khaimah Investment Authority (RAKIA).

Ajman offers offshore company registration in the Ajman Free Zone Authority (AFZA)

### **Jebel Ali Free Zone Offshore**

1. JAFZA offshore is the only offshore authority accepted by the Dubai Land Department for

registration of properties in Dubai. Incidentally one may also own property through any UAE free zone or local Company.

2. JAFZA is one of the few offshore jurisdictions that also issue Dubai Certificates of Origin and allows invoices for shipments.

3. All the shareholders and Directors are required to be present at the time of registration of offshore entity, where as it is not mandatory with other offshore authorities.

4. The bank accounts for JAFZA offshore companies can be opened in a wider choice of banks compared to other offshore companies.

5. Documentation requirements are more elaborate. Owner's personal, academic and other details are required. Also a security approval will be sought by JAFZA, before clearance is given to register the offshore company.

The choice of selecting the appropriate offshore authority should be based on ones business objectives. Decision based merely on cost of incorporation may be short sighted. A more prudent approach will be, to discuss the advantages and disadvantages of different domiciles with an offshore company registration agent who will be able to provide appropriate advice.

### **Ras Al Khaimah Free Trade Zone Offshore**

1. RAK FTZ is the most economical offshore authority in the UAE. However the processing time for completing registration formalities are high when compared to other authorities.

2. RAK FTZ allows to use the acronym “Ltd” and “Inc” suffixes along with the names of the offshore Company.

3. RAK FTZ is one of the few offshore authorities in the world that allows Bearer Shares.



4. The personal presence of all the Shareholders and Directors are not required during registration.

5. RAK FTZ companies are accepted by almost all the banks in Dubai for opening a bank account.

### Ras Al Khaimah Investment Offshore

1. RAKIA is highly customer friendly coupled with fast and prompt service. The turnaround time is quick. Name approval comes within a day. Offshore company registration can be done in the very next day if all documents are in order.

2. The procedures for changing the shareholders, directors or the secretary are extremely simple and such changes can be done immediately.

3. There is no need for the personal presence of shareholders and/or Directors during registration.

4. Registration cost of RAKIA offshore is much cheaper than JAFZA offshore but slightly more expensive than RAK FTZ offshore.

5. RAKIA's know Your Client (KYC) requirements are straight forward and the processing is simple.

### Why people are going for Offshore Company?

- **Tax Optimization** – The most common reason for registering an offshore Company is for tax optimization. Tax optimization is the process of minimizing the tax burden through legally available means. While tax optimization is considered as a legal way of minimizing the tax pay-out, it is very different from tax evasion; tax evasion is treated as illegal and criminal by many countries across the world.

- **Asset Protection** – High net worth people and wealthy persons from countries which are politically unstable or potentially risky normally use offshore company as a vehicle to protect their assets and

family wealth. An offshore company in this situation is being used as an instrument to shield their assets from potential unrest and restrictions in the country in which they live. An offshore company would work best if the assets are earned in a foreign country or has been expatriated over a significant time through legal and legitimate channels. Assets earned in foreign countries can be protected directly under the umbrella of the offshore company or through an offshore bank account under the UAE offshore company.

- **Asset Holding** – Very often large corporate entities and conglomerates accumulate valuable assets as part of their operations. In order to protect the high risk assets from potential legal conflicts affecting the parent group, many holding companies are formed in UAE under any one of the offshore authority. High risk assets parked under such an offshore companies offer better security.

- **Trading in Derivatives** – Trading in derivatives and other high risk instruments in the normal stock markets is a cumbersome process because of the stringent legal formalities and other regulations prevailing in the country. In such cases wealthy people often set up offshore company as a vehicle to trade in such high risk investment instruments and transfer their earnings to the offshore bank account.

- **Stock Market Listing** – Some of the best companies in the world could emerge from countries with poor or under developed corporate laws. Corporate entities keen to raise funds or listing their shares in the stock market do so by forming a company in one of the offshore jurisdictions. Underdeveloped corporate laws in the domestic market can also be a good reason to form an offshore company in UAE for joint venture projects.

*(continued on page number 11)*

*More than figures.....*



**“Emirates Business Elite 2015”**- A workshop conducted on 6 th june 2015 at the Head office of Emirates Chartered Accountants Group on the topic “Investment Opportunities” by the CEO Mr. Krishnan Ramachandran and Director Mr. K.V. Shamsudheen (Barjeel Geojit Securities LLC)



As part of Corporate Social Responsibility, Emirates Chartered Accountants Group extend their support to the earthquake victims in Nepal, in association with UAE Exchange and Emirates Red Crescent.

Emirates Chartered Accountants Group  
Toastmasters Club-Fourth, Fifth and Sixth – Meetings



“Emirates Chartered Accountants Group’s”  
Participation in the “Nasca Indian  
Premium league 2015”



# Basics of Working Capital Management.

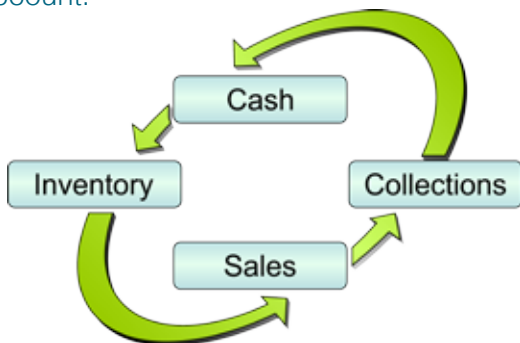
O.M. Abdullah

Asst. Manager Corporate Finance Division



After completing plus two course in 2005, Mr. Ali took over the well established electronic wholesale business from his father, Mr. Mohammad. The business had remarkable growth having annual turnover

around 100 million dirhams, had 4 branches within Dubai with staff strength of more than 50. The family had affluent real estate investment worth more than rupees 100 crores in India. The business was financially sound, had surplus working capital and had no borrowings or loans. The business was collaborated with established and guaranteed customer from MENA region and supportive suppliers from Dubai and China. As the business was doing well, Ali started focusing more on the real estate properties in India. He had purchased huge land and properties in Kerala and Mangalore by diverting the funds from business working capital. That practice continued until the day, he received annoying SMS from the bank that his cheque was returned due to insufficient balance in the account.



Since the receivables were insufficient to meet the obligation, he borrowed from a money lender with a high interest rate of 7.5% per month, i.e., approximately 100% per annum. He also started selling inventories with low

margin. Due to delay in payments, the suppliers started to withdraw the credit facilities which again badly affected him which leads to losing his valuable customers and business. Since the business did not have proper accounting system they could not generate the reliable financial report. When a Financial Advisor was appointed, the directors of the company realized the problems in the organization. Lack of proper accounting practice, poor working capital management, improper organizational structure, inadequate inventory control, etc were some of the major issues pointed out by the Advisor. As advised by him they have done the financial audit for the first time since its incorporation. As per the recommendation and advice from the Advisor and Auditor, the complete business restructuring was successfully implemented. At present, business is growing to the NEXT LEVEL.

***“Most of the entrepreneurs are expert in their business activities, however raising fund at a cheaper cost in appropriate time is not easy for everyone.”***

The working capital is the life blood for any business. The simple definition for the working capital is that “availability of cash for the day to day business operation”. In business accounting, working capital is a benchmark measure of company's ability to meet its short-term obligations. It's calculated by taking your business's current assets and subtracting its current liabilities. Current assets are those that can or will be converted to cash generally within a year. The major current assets are cash, accounts receivable and inventory. Current liabilities are obligations that must be fulfilled within the





next year. For a typical company, the major current liabilities are accounts payable, accrued liabilities (such as wages earned by workers but not yet paid, or rent expenses incurred but not paid), and debts outstanding. When current assets exceed current liabilities, a company has positive working capital. That's good. When it's the other way around, the company has negative working capital. That's not tolerable.

review, internal & external audit, adequate inventory control are indispensable to any business. It is equally important to know how to raise the fund economically and utilize it in a profitable way. Most of the entrepreneurs are expert in their business activities, however raising fund at a cheaper cost in appropriate time is not easy for everyone.

<b>Current Assets (50,000)</b>	<b>Accounts Receivable (8,000)</b>	<b>Current Liability (24,000)</b>	<b>Accounts Payable (4,000)</b>
	<b>Advances &amp; Deposits (6,500)</b>		<b>Other Payable (14,500)</b>
	<b>Inventory (21,500)</b>		<b>Provisions (3,500)</b>
	<b>Cash &amp; Bank (14,000)</b>		<b>Bank Facility- LC (2,000)</b>
<b>Working Capital= Current Assets- Current Liabilities =50,000-24,000= 26,000</b>		<b>Current Ratio = Current Assets/Current Liabilities =50,000/24,000= 2.08</b>	

### Things to Remember:

1. If the Current Ratio is less than one, it means that the company has negative working capital.
2. A high Current Ratio isn't always a good thing, it could indicate that the company has too much inventory or it is not investing its excess cash properly.
3. Acceptable current ratios vary from industry to industry and a ratio of 2:1 is an ideal current ratio, in majority of the cases.

A proper accounting system is mandatory to manage the working capital effectively. Collecting receivables on time, negotiating for the discounts with the suppliers, maintaining a healthy relation with suppliers & customers, periodical accounts

A bank OD/LC facility is a cost effective product to meet working capital needs. It makes money available to company for its day to day operations as and when required up to the pre-approved credit limit and the interest will be charged only on the fund actually used / withdrawn from the credit line.

The knowledge on working capital management along with proper accounting system & procedure are inevitable for today's competitive and ever-changing business atmosphere. A regular monitoring of all the movements in cash & fund flow will help the entrepreneur to improve their working capital efficiency. ■

## STUDENTS' DESK

*"Writing is Easy. All you have to do is cross out the wrong word"- Mark Twain.*



Sakkira Hamza  
Student Editor

But to make the writing easy, we need good suggestions and feedbacks from all our readers.

We have received a lot of suggestions and they are really a value addition to our Editorial Board. We thank each and every one of you for your valuable time in providing us the suggestions and feedbacks. The students who wanted to know in detail about any topics can write to us and it is well appreciated.

In this Volume, we have a lot of excellent topics on discussion by experts in the main sections. But you all know, how important is the Internal Check and Internal Control in a multi-national organization with large scale of production and/or services. Hence, I have tried to brief out the main areas covering Internal Check and Internal Control for my dear friends. I hope that a beginner will find it easy to understand and add value to your upcoming professional life. Have a happy read ahead and a wonderful career..!!

## INTERNAL CHECK AND CONTROL - AN IMPORTANT ASPECT OF SMOOTH BUSINESS OPERATIONS

**I**nternal check is a system of accounts carried out in organizations under which the work of one person is automatically checked by another, with a view to prevent and detect the errors and frauds. Under such a system, it is not possible to commit errors & frauds without the collusion between two or more people. It is a process included in the Internal Control System for assuring the achievement of an organization's objectives in operational effectiveness and efficiency.

### Objectives of Internal Check:

- Minimizing the possibility of error, fraud and irregularity
- Enhancing the clerical efficiency in the organization
- Exercising moral influence over the employees
- Ensuring the accurate recording of all business transactions
- Preventing misappropriation of cash and goods

### Advantages of Internal Check:

- Minimization of errors and frauds
- Early detection of errors and frauds
- Increased profitability
- Proper division of work
- Good Internal control over cash and other day to day transactions
- Efficient and economical business operations
- Convenience to auditors

### Characteristics of Good Internal Check:

- Division of work – No single person should have independent control over all important aspects of the business
- Job Rotation - The duties among the staff of the



business should be changed from time to time so

that no staff should be engaged in a particular job for a long time.

- Authority Levels - The financial and administrative power should be assigned very judiciously to different officers.
- Separation of Custody and Recording  
Person having physical custody of asset must not be permitted to have an access to the books of accounts.

#### **Responsibility of Auditors in Internal Check:**

- The auditor should satisfy himself about the working of proper internal control system. He should examine carefully the system of internal check before deciding his scope of work.
- If the auditor is satisfied about the effectiveness of internal control then he should check the efficiency and its existence by checking various items from different areas.
- If the auditor feels that internal control system is not satisfactory then he should check those accounts where errors are likely to exist. If the internal control system cannot satisfy the auditor then he should report the client in writing.
- If the auditor feels that overall system is satisfactory except some areas of certain sections of the system appear to be inadequate, then the client should be made aware of the hidden risk.
- Auditor should also give suggestions to overcome the weakness.

Internal check is a continuous process and is an essential part of the day-to-day business routine. It relates to all the transactions that take place every day. Internal check is achieved by complementary allocation of duties and by independent verification of the work of one person by another. ■

*.....continued From page number 05*

- **Security** – An offshore bank account in the name of an offshore company can be maintained in strict confidentiality. Banks never disclose information about the ownership of offshore bank accounts and also does not share with any third party or other entities, any details, unless those are of very special significance or under unusual circumstances.

#### Limitations

Though offshore companies are very useful to save tax burden, those have also the following limitations.

- Offshore Companies cannot carry on business with persons or legal entities resident in the jurisdiction of incorporation.
- Offshore Companies are not allowed to own an interest in real estate property situated in the country of incorporation.
- Offshore Companies cannot hold shares, stock, debt obligations or other securities in a local company incorporated under the ordinary companies Act. ■

Donate **blood**



**Save lives** . .  
*More than figures. . .*

## *Blood Donation camp By*

Emirates chartered accountants group

**“ On Chartered Accountants day”**

1st July 2015, Wednesday

Time: 8.30 am Till 1.30 PM

Location : Latifa Hospital, Dubai.

*“We invite every one to Join with us”*

emirates  **chartered accountants group**  
*More than figures.....*



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