CORPORATE GOVERNANCE IN LISTED COMPANIES - NEW CLAUSE 49 OF THE EQUITY LISTING AGREEMENT- PART -I

NEW CLAUSE 49 OF LISTING AGREEMENT

I. The company agrees to comply with the provisions of Clause 49 which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below. In case of any ambiguity, the said provisions shall be interpreted and applied in alignment with the principles.

A. The Rights of Shareholders:

1. The company should seek to protect and facilitate the exercise of shareholders' rights:

(a) Shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes.

(b) Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings.

(c) Shareholders should be informed of the rules, including voting procedures that govern general shareholder meetings.

(d) Shareholders should have the opportunity to ask questions to the board, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.

(e) Effective shareholder participation in key Corporate Governance decisions, such as the nomination and election of board members, should be facilitated.

(f) The exercise of ownership rights by all shareholders, including institutional investors, should be facilitated

(g) The Company should have an adequate mechanism to address the grievances of the shareholders.

(h) Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.

2. The company should provide adequate and timely information to shareholders:

(a) Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be discussed at the meeting.

(b) Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

(c) All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase.

3. The company should ensure equitable treatment of all shareholders, including minority and foreign shareholders:

(a) All shareholders of the same series of a class should be treated equally.

(b) Effective shareholder participation in key Corporate Governance decisions, such as the nomination and election of board members, should be facilitated.

(c) Exercise of voting rights by foreign shareholders should be facilitated.

(d) The company should devise a framework to avoid Insider trading and abusive self-dealing.

(e) Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders.

(f) Company procedures should not make it unduly difficult or expensive to cast votes.

B. Role of stakeholders in Corporate Governance

1. The company should recognise the rights of stakeholders and encourage cooperation between company and the stakeholders:

(a) The rights of stakeholders that are established by law or through mutual agreements are to be respected.

(b) Stakeholders should have the opportunity to obtain effective redress for violation of their rights.

(c) Company should encourage mechanisms for employee participation.

(d) Stakeholders should have access to relevant, sufficient and reliable information on a timely and regular basis to enable them to participate in Corporate Governance process.

(e) The company should devise an effective whistle blower mechanism enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices.

C. Disclosure and transparency

1. The company should ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the company:

(a) Information should be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure.

(b) Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users.

(c) The company should maintain minutes of the meeting explicitly recording dissenting opinions, if any.

(d) The company should implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and should also ensure that the annual audit is conducted by an independent, competent and qualified auditor.

D. Responsibilities of the Board

1. Disclosure of Information:

(a) Members of the Board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the company.

(b) The Board and top management should conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture for good decision-making.

2. Key functions of the Board

The board should fulfill certain key functions, including:

(a) Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments.

(b) Monitoring the effectiveness of the company's governance practices and making changes as needed.

(c) Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.

(d) Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.

(e) Ensuring a transparent board nomination process with the diversity of thought, experience, knowledge, perspective and gender in the Board.

(f) Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.

(g) Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

(h) Overseeing the process of disclosure and communications.

(i) Monitoring and reviewing Board Evaluation framework.

3. Other responsibilities:

(a) The Board should provide the strategic guidance to the company, ensure effective monitoring of the management and should be accountable to the company and the shareholders.

(b) The Board should set a corporate culture and the values by which executives throughout a group will behave.

(c) Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

(d) The Board should encourage continuing directors training to ensure that the Board members are kept up to date.

(e) Where Board decisions may affect different shareholder groups differently, the Board should treat all shareholders fairly.

(f) The Board should apply high ethical standards. It should take into account the interests of stakeholders.

(g) The Board should be able to exercise objective independent judgment on corporate affairs.

(h) Boards should consider assigning a sufficient number of non-executive Board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest.

(i) The Board should ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to significant risks not being recognised or exposes the company to excessive risk.

(j) The Board should have ability to 'step back' to assist executive management by challenging the assumptions underlying: strategy, strategic initiatives (such as acquisitions), risk appetite, exposures and the key areas of the company's focus.

(k) When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.

(l) Board members should be able to commit themselves effectively to their responsibilities.

(m) In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

(n) The Board and senior management should facilitate the Independent Directors to perform their role effectively as a Board member and also a member of a committee.

SOME ISSUES RELATING TO INDIRECT TAX

First Stage Dealer (FSD)

As per rule 2(ij) of CENVAT Credit Rules, 2004 "first stage dealer" means a dealer, who purchases the goods directly from, -

(a) the manufacturer or importer, or

(b) the depot of the said manufacturer or importer, or

(c) premises of the consignment agent of the said manufacturer or importer, or

(d) any other premises from where the goods are sold by or on behalf of said manufacturer,

under the cover of an invoice issued in terms of the provisions of Central Excise Rules, 2002.

Second Stage Dealer (SSD)

As per rule 2(s) of CENVAT Credit Rules, 2004 "Second stage dealer" means a dealer, who purchases the goods from a first stage dealer.

First Stage and Second Stage dealer are required to obtain registration under Central Excise, so that they can issue CENVAT-able invoices as per Rule 9(1) of the CENVAT Credit Rules, 2004 enabling the buyer to take credit thereon.

Example.1 – ABC Ltd has a factory at Mumbai and one Branch at Bangalore. Branch sells dutiable goods after receiving from factory. Under Central Excise branch is considered as a dealer. Therefore, such branch must register under Central Excise as dealer, so as to pass CENVAT credit to buyer manufacturer.

Distribution of Credit on Inputs/Capital goods by the Office or any other premises of Output Service Provider

As per the provisions of rule 7A(2) or any rules made under CEA, 1994, as made applicable to a first stage dealer or a second stage dealer, shall apply to such office or premises of the provider of output service. Thus, such office or premises can pass on pro rata credit to the extent they are sent to a particular branch office, etc.

Issue of Invoice

As per Rule 9(4) of CENVAT Credit Rules 2004, the CENVAT credit in respect of input or capital goods purchased from a first stage dealer or second stage dealer shall be allowed only if such first stage dealer or second stage dealer, as the case may be, has maintained records indicating the fact that the input or capital goods was supplied from the stock on which duty was paid by the producer of such input or capital goods and only an amount of such duty on *pro rata* basis has been indicated in the invoice issued by him.

Provided that provisions of this sub-rule shall apply *mutatis mutandis* to an registered importer who issues an invoice on which CENVAT credit can be taken.

Example.2 – If First Stage Dealer purchases 1,000 Kg. goods on which duty of ₹1 lakh is paid and he sells 300 Kg. goods, then, pro rata credit of ₹30,000 should only be indicated in invoice.
First Stage and Second Stage dealer are only eligible for passing the CENVAT Credit. They cannot levy the central excise duty.

Example.3 – If First Stage Dealer purchases 1,000 Kg. goods @ ₹500/ Kg on which duty liability is @14% has paid i.e. ₹70,000 is paid as duty liability and he sells 300 Kg. goods @ ₹800/Kg where the rate of excise duty is same, then, as per the provision of the act, the first stage dealer can pass the CENVAT Credit on pro rata basis of ₹30,000 (i.e. 70,000/1000x 300) should only be indicated in invoice. The first stage dealer cannot levied excise duty on his selling price rather he can only eligible for pass the duty on pro rata basis to the buyer (i.e. manufacturer).

Example.4 - The machinery was purchased through Mr. D (dealer) and not from the manufacturer. The dealer's Invoice No. 207, dated 8.11.2013 marked 'original for buyer' certified that the Excise duty paid by the manufacturer of machinery was ₹24,000. The dealer is registered with the Central excise Authorities. In this case, the buyer (i.e. manufacturer) is eligible to avail the CENVAT credit benefit of ₹24,000.

Return to be Filed

Rule 9(8) of CENVAT Credit Rules 2004 provides that a first stage dealer or a second stage dealer or a registered importer, as the case may be, shall submit within fifteen days from the close of each quarter of a year to the Superintendent of Central Excise, a return in the form specified, by notification, by the Board.
Provided that the first stage dealer or second stage dealer or a registered importer, as the case may be, shall submit the said return electronically.

Illustration. –

Veer Traders imports 10 tons of steel bars from a foreign manufacturer of steel bars. Veer Traders has paid CVD equal to excise duty of ₹10,000 on the steel bars, along with BCD ₹25,000 and EC/SHEC on import duty ₹1,050 (Special CVD is ₹6,000 but invoice issued by Veer Traders bears an indication that credit of Special CVD cannot be taken.). Veer Traders sells 2 tons of steel bars to XYZ Ltd., a manufacturer who uses the steel bars in his factory for the manufacture of the final product. XYZ Ltd. wishes to avail the CENVAT credit on the steel bars. You are required to advise XYZ Ltd. whether it can claim the CENVAT credit on the steel bars. How much CENVAT credit it can avail, if allowable?

Solution :

The following points are relevant —

- Veer Traders is an importer and it appears that it is registered under Central Excise law so that it can issue Cenvatable invoices.
- Veer Traders has to comply with provisions of Rule 9 of the CENVAT Credit Rules, 2004 and can therefore,

pass on pro rata credit to buyer M/s. XYZ Ltd.

- Pro rata credit that can be passed on = ₹10,000 CVD for 10 ton = ₹1,000 per ton. (BCD&EC/SHEC on imports cannot be passed on as credit. Further, since invoice issued bears an indication that credit of Special CVD cannot be taken, hence, same cannot be taken).
- Credit that can be availed by XYZ Ltd. for 2 tons = ₹ 1,000 per ton X 2 tons = ₹ 2,000.
- Purchases from registered importer are also eligible for Cenvat credit on the basis of invoice issued by such importer.

Note:

Same principle would apply to purchases made from:

(a) FSD buying goods from domestic manufacturer, or,

(b) SSD buying from FSD.

Input Service Distributor under Central Excise and Service Tax

Manner of distribution of credit by input service distributor [Rule 7]

The input service distributor may distribute the CENVAT credit in respect of the service tax paid on the input service to its manufacturing units or units providing output service -

Maximum distribution	The credit distributed against a document referred to in rule 9 does not exceed the amount of service tax paid thereon.
Exclusively used service to be distributed to that unit	Credit of service tax attributable to service **used wholly by a unit** shall be distributed only to that unit.
Services exclusively used in exempted goods/services – No distribution	Credit of service tax attributable to service **used by one or more units** exclusively engaged in manufacture of exempted goods or providing of exempted services shall not be distributed.
Commonly used services for 2 or more units	$\text{Credit of a unit} = \dfrac{\text{Credit of service tax attributable to service used by more than one unit}}{\text{Total turnover of all its units, which are operational in current year, during relevant period}} \times \text{Turnover of such unit during relevant peri}$

	Total Turnover: Total turnover is determined in the manner specified in Rule 5. **Relevant Period**: The 'relevant period' shall be,— **(a) Last financial year data**: If the assessee has turnover in the 'financial year' preceding to the year during which credit is to be distributed for month or quarter, as the case may be, the said financial year; or **(b) Last quarter's data, if last F.Y.s data not available in respect of one or more units**: **If** the assessee does not have turnover for some or all the units in the preceding financial year, the last quarter for which details of turnover of all the units are available, previous to the month or quarter for which credit is to be distributed.

Analysis:

(A) Turnover of all units to be considered irrespective of whether or not service is used by such unit [Circular No. 178/4/2014-ST, dated 11-7-2014]: Credit of service tax attributable to service used in more than one unit shall be distributed *pro rata* —

- on the basis of turnover of all operational units ; and
- turnover ratio will be determined for all operational units irrespective of the units to which service relates.

Example: An Input Service Distributor (ISD) has four units operational in the current year (₹) —

A (Manufacturing excisable goods)	25,00,000
B (Manufacturing excisable and exempted goods)	30,00,000
C (providing exclusively exempted service)	15,00,000
D (providing taxable and exempted service)	30,00,000
TOTAL	1,00,00,000

Common input service credit pertaining to more than one unit (say, only A, B and C): ₹12,000 (service was not used for unit D).

Solution:

Credit will be distributed to all the four units, even if service has not been used for Unit D. Hence, credit distributed would be —

- Unit A : 25% of 12,000 = ₹ 3,000
- Unit B : 30% of 12,000 = ₹ 3,600
- Unit C : 15% of 12,000 = ₹ 1,800
- Unit D : 30% of 12,000 = ₹ 3,600

(B) Turnover period: Turnover ratio will be taken based on turnover of the last financial year (i.e., for April 2015 to March 2016, turnover ratio of 2014-15 will apply); thus, the turnover ratio would remain static for entire financial year. Only in case where aforesaid details are not available for all the units, the turnover data of the last quarter shall be taken.

"Unit" includes the premises of a provider of output service and the premises of a manufacturer including the factory, whether registered or otherwise.

Distribution of credit on input goods and capital goods by the office or any other premises of output service provider [Rule 7A]

A provider of output service shall be allowed to take credit on inputs and capital goods received, on the basis of an invoice or a bill or a challan issued by an office or premises of the provider of output service, which receives invoices, issued in terms of the provisions of the Central Excise Rules, 2002, towards the purchase of inputs and capital goods.

Cenvat credit on input goods and capital goods can be distributed by the service provider only if such person is registered as first stage or a second stage dealer.

Sub-rule (2) provides that the provisions of these rules or any other rules made under the Central Excise Act, 1944, as made applicable to a first stage dealer or a second stage dealer, shall mutatis mutandis apply to such office or premises of the provider of output service.

Return to be filed by ISD [Rule 9(10) and 9(11)]:

Return	Submitted to -	For	Due date
Half-yearly return giving the details of credit received and distributed during the said half year	Superintendentof Central Excise	Form ST-3	By end of month following the half year. [E-filing]
REVISED RETURN to correct a mistake or omission	Superintendent of Central Excise	Form ST-3	Within 60 days from date of submission of original return [E-filing]

Illustration: *A* manufacturer has Head Office registered as input service distributor and four units. It furnishes following details and asks you to determine Cenvat Credit distributable under Rule 7 of Cenvat Credit Rules, 2004 for the month of April, 2015—

	Unit 1: Potlan	Unit 2: Mumbai	Unit 3 : Jaipur	Unit 4: Ahmedabad	Unit 5: Surat	Total
Turnover for the year 2014-15	₹50 crores	₹15 crores	₹10 crores	₹55 crores	₹10 crores	₹140 crores
Credit of service tax on security services (used at Jaipur only)						₹ 3 lakh
Credit of service tax on consultancy services (for Potlan)						₹ 2 lakh
Credit of service tax on Cleaning Services (for Potlan, Jaipur and Ahmedabad unit)						₹ 6.5 lakh
Credit of service tax on other services (common for all)						₹19.5 lakh

You are informed that Unit 1 (Potlan) is exclusively engaged in manufacture of exempted goods. You are also informed that Unit 5 (Surat) was closed on 31-3-2015.

Solution:

Credit of service tax to be distributed as per Rule 7

	Unit 1: Potlan (wholly exempt)	**Unit 2: Mumbai**	**Unit 3 : Jaipur**	**Unit 4 : Ahmedabad**
Turnover for the year 2014-15	₹ 50 crores	₹ 15	₹ 10	₹55 crores
Security Services - Since they are used at Jaipur only, credit will be distributed to Jaipur only	-	-	₹ 3,00,000	
Consultancy Services - It relate exclusively to Potlan Unit	₹ 2,00,000			
Credit of cleaning and other common services ₹ 26 lakh (₹ 6.5 lakh + ₹ 19.5 lakh) will be distributed in ratio of turnover viz. 50 : 15 : 10 : 55 **[See Note 1]**	₹ 10,00,000	₹3,00,000	₹ 2,00,000	₹ 11,00,000
Total Credit (₹)	**NIL (Note 2)**	**3,00,000**	**5,00,000**	**11,00,000**

Notes:

1. As per Rule 7 of the CENVAT Credit Rules, 2004, in case of credit of service tax attributable to service used by more than one unit, credit is distributed to all operational units, whether such service relates to that unit or not. In other words, credit of cleaning services will be distributed over all the four units, even if it relates only to Potlan, Jaipur and Ahmedabad units and not to Mumbai unit. Therefore, for ease of computation, cleaning services credit ₹ 6.5 lakh and other services credit ₹ 19.5 lakhs has been distributed in totality of ₹ 26 lakh — **[Circular No. 178/4/2014-ST, dated 11-7-2014].**
2. Since Potlan unit is engaged in manufacture of exempted goods only, no credit can be taken/ distributed to such unit. Hence, total credit will be NIL.
3. Since Unit 5 (Surat) was discontinued on 31-3-2015 *i.e.*, it is not operational during the current financial year; therefore, the turnover of Surat Unit would not be considered for determining the turnover ratio under Rule 7 of the Cenvat Credit Rules, 2004.

RISK MEASUREMENT AND CONTROL

Banks face a number of risks in order to conduct their business, and how well these risks are managed and understood is a key driver behind profitability, and how much capital a bank is required to hold.

The various methods used for risk are as follows:

- **Market risk:** Risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors. The factors of Market Risk are (i) Basis,(ii)Embedded option, Net Interest position, Yield curve etc.
- **Liquidity risk:** Risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (of make the required profit).
- **Credit risk:** Risk of loss arising from a borrower who does not make payments as promised.
- **Operational risk:** Risk arising from execution^ of a company's business functions.

The capital requirement is a bank regulation, which sets a framework on how banks and depository institutions must handle their capital. The categorization of assets and capital is highly standardized so that it can be risk weighted.

So for a bank to determine its overall risk to changing interest rates, it must determine how its income will change when interest rates change.
There are two common tools for measuring the interest rate risk of Bank portfolios – (i) Gap analysis and (ii) Duration analysis

Gap Analysis:

Gap analysis **is the difference between the values of the interest rate sensitive assets minus the value of the interest rate sensitive liabilities (the gap) multiplied by a change in interest rate of 1%.**

Gap = Value of Interest Rate Sensitive Assets - Value of Interest Rate Sensitive Liabilities.

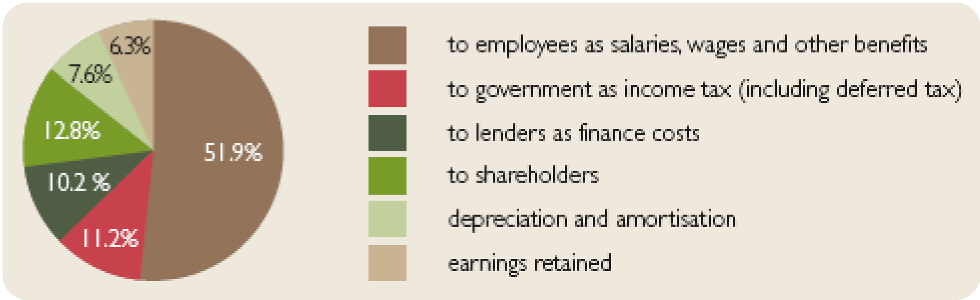
Gap × Change in Interest Rate = Change in Bank's Profit.

Duration Analysis:

Duration measures the change in the price of a bond when the interest rate changes by 1%. A bank calculates its duration gap by subtracting the weighted average duration of its assets minus the weighted average duration of its liabilities.

The 2007 - 2009 credit crisis has also shown the tremendous risks presented by derivatives, which are securities whose value depends on an underlying asset or index. The most common derivatives bought and sold by banks are mortgage-backed securities (MBS), interest-rate swaps, and credit default swaps.

GROSS VALUE ADDED STATEMENT



Value Added is the wealth created through the combined effort of

- Capital
- Management and
- Employees

This wealth concept arises due to the input- output exchange between a Firm and components of its external environment.

Value Added = Sale Value of Outputs **Minus** Cost of Bought in goods and services.

Gross Value Added (GVA) —

Sales Revenue + Direct Incomes - Materials Cost

- Expenses Cost **=** Retained Profits + Wages paid + Managerial Remuneration + Interest, paid + Taxes paid + Dividends paid + Depreciation Expense.

Gross Value Added	
the wealth or surplus created by the firm i.e. the **Sources**	the beneficiaries of this wealth i.e. the **Applications**
Sales Revenue	Wages paid to Employees
+ **Direct Incomes**	+ Interest paid to Providers of Loan Funds
- Materials Cost	+ Taxes paid to Government
- Expenses Cost	+ Dividends paid to owners and investors
± Non-Operating Income/Expenditure	+ Retained Profits
± Extra-Ordinary Income/Expenditure	+ Depreciation (for maintenance & expansion)

The Value Added Statement shows the Value Added of a business for a particular period. It also reveals how it is arrived at and apportioned to the stakeholders like employees, management, loan providers, Government and also to the business itself.

The Value Added Statements has two parts — the first part showing how the GVA is arrived at and the second part showing the application / distribution of Value Added to various beneficiaries.

GROSS VALUE ADDED OF A MANUFACTURING COMPANY

for the year ended ....

Particulars	₹	Percentage
Sales	XXX	
Less: Materials and Services Used	XX	
Add: Royalties and Other Direct Income	XX	
Value Added by Trading Activities	**XXX**	
Add: Investment Income	XX	
Add/Less: Extra-Ordinary Items	XX	
Gross Value Added	**XXXX**	**100%**
Applied as follows -		
1. To Employees Salaries, Wages, etc.	XXX	x%
2. To Government as Taxes, Duties, etc.	XXX	x%
3. To Financiers as Interest on borrowings	XXX	x%
4. To Shareholders as Dividends	XXX	x%
5. To Retained Earnings, including Depreciation	XXX	x%
Total	**XXXX**	**100%**

Example:

The following figures for a period were called out from the books of Asha Corporation:

Particulars	₹
Sales	**24,80,000**
Purchase of raw materials	**10,00.000**
Agent's commission	**20,000**
Consumable stores	**25,000**
Packing material	**10,000**
Stationery	**10,000**
Audit fees	**4,000**
Staff welfare expenses	**1,58,000**
Insurance	**26,000**
Rent rate & taxes	**16,000**
Managing director's remuneration	**84,000**
Traveling expenses	**21,000**
Fuel and oil	**9,000**
Electricity	**5,000**

Material used in repairs:	
1. Materials to plant and machinery	**24,000**
2. Materials to buildings	**10,000**
Advertisement	**25,000**
Salaries and wages	**6,30,000**
Postage and telegraphs	**14,000**
Contribution to provident fund, etc.	**60,000**
Directors' sitting fees & traveling expenses	**40,000**
Subscription paid	**2,000**
Carriage	**22,000**
Interest on loans taken	**18,000**
Dividend to shareholders	**30,000**
Depreciation provided	**55,000**
Income-tax provided	**1,00,000**
Retained earnings	**1,25,000**
Opening stock : raw Material	**85,000**
Finished goods	**2,00,000**
Closing Stock: raw Material	**1,08,000**
Finished goods	**2,40,000**

From the above you are required to prepare a statement detailing the source and disposal to added value.

Solution:

Statement showing the sources and disposal of Added Value

Sources:	**Amount (₹)**	**Amount (₹)**
Sales		24,80,000
Less: Agents' commission		20,000
Add: change in finished stocks (W.N 1)		40,000
Gross Output		25,00,000
Less:		
(a) Raw Materials :		
Purchases	10,00,000	
Less: Change in Stock	23,000	
	9,77,000	
Other Materials:		
Consumables	25,000	
Packing Materials	10,000	
Stationary	10,000	
Fuel & oil	9,000	
Electricity	5,000	
Repair – Plant & Machinery	24,000	
Repair – Building	10,000	
Cost of brought in inputs	10,70,000	
(b) Purchased Services:		
Audit Fees	4,000	
Insurance	26,000	
Rent, Rates & Taxes	16,000	
Traveling Expenses	21,000	
Advertisement	25,000	
Postal & Telegraph	14,000	

Subscription	2,000	
Staff Welfare Expenses	1,58,000	
Carriage	22,000	
		13,58,000
Added Value		**11,42,000**
Disposal:		
To, Employee Costs		
- MD Remuneration	84,000	
- Director Sitting Fees & Expenses	40,000	
- Salaries & Wages	6,30,000	
- Contribution to PF	60,000	8,14,000
To Government		
- Tax Provided		1,00,000
- Provider of Finance		
- Interest on Loan		18,000
To, Pay Share Holders		
- Dividend		30,000
To Entity		
- Depreciation	55,000	
- Retained Earnings	1,25,000	1,80,000
Added Value		**11,42,000**

W.N 1 This adjustment is necessary because the cost relating to this closing stock stands included in purchase.

Effect of Value Added Statement on Performance of Employees

Oscar Corporation had been preparing value added statements for the past five years. The personnel manager of the company has suggested that a value added incentive scheme when introduced will motivate employees to perform better than before. To introduce the scheme, it is proposed that the best index performance, i.e., employee costs to added value for the last 5 years will be used as the target index for future calculations of the bonus to be earned.

After the target index is determined, any actual improvement in the index will be rewarded the employer and employees sharing any such bonus in the ratio 1: 2. The bonus is given at the end of the year, after the profit for the years is determined.

From the following details, find out the bonus to be paid to the employees, if any, for 2014:

Valuation Added Statement for 5 years

(₹ '000)

Year	**2009**	**2010**	**2011**	**2012**	**2013**
Sales	4,200	5,700	6,900	7,800	9,000
Less: Bought in goods Service	1,920	3,000	3,750	4,200	4,800
Added value	2,280	2,700	3,150	3,600	4,200
Employees costs	975	1,140	1,260	1,476	1,680
Dividend	150	225	300	360	450
Taxes	480	570	540	750	840
Depreciation	390	465	60	660	840
Debenture interest	60	60	375	60	60
Retained earnings	225	240		294	300
Added value	2,280	2,700	3,150	3,600	4,200

Summarized Profit & Loss Statement for 2014

Particulars	**₹ '000**	**₹'000**
Sales		10,950
Cost of material	3,750	
Wages	1,050	
Production Salaries	300	
Production Expenses	1,050	
Depreciation of machinery	750	
Adm. Salaries	450	
Adm. Expenses	450	
Adm. Depreciation	300	
Deb. Interest	60	
Salaries (Sales Deptt.)	90	
Selling Expenses	300	
Depreciation (Sales Deptt. Assets)	90	8,640
Profit		2,310

Solution:

Statements showing Added Value and Amount of Bonus paid to employees:

(₹ '000)

Year	**2009**	**2010**	**2011**	**2012**	**2013**
Employees cost	975	1,140	1,260	1,476	1,680
Added Value	2,280	2,700	3,150	3,600	4,200
Percentage	42.76%	42.2%	40%	41%	40%

Target Index = 40%

Working Note:

Value Added Statement

Particulars	₹ '000	₹'000
Sales		10,950
Less: Cost of bought-out goods and services:		
Materials	3,750	
Production Expenses	1,050	
Administrative Expenses	450	
Selling Expenses	300	5,550
Added value		**5,400**

Particulars	₹ '000	₹'000
Employees costs:		
Wages	1,050	
Production Salaries	300	
Administrative Cost	450	
Selling Salaries	90	1,890

Working showing the bonus for 2014	**₹ '000**
Employees cost as per target Index (5,400 x 40%)	2,160
Actual employees cost	1,890
Saving/ Improvement	270

Employees share = ₹ 2,70,000 x 2/3 = 1,80,000