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August - 2023 Issue

CMA Student E - Bulletin

FINAL

The Institute of Cost Accountants of India

Statutory Body under an Act of Parliament

www.icmai.in

CONTENTS

Message from the PRESIDENT

Dear Students,

Greetings,

"Take up one idea. Make that one idea your life; dream of it; think of it; live on that idea. Let the brain, the body, muscles, nerves, every part of your body be full of that idea, and just leave every other idea alone. This is the way to success, and this is the way great spiritual giants are produced." — Swami Vivekananda.

The Institute prepares the course curriculum considering the perspective of the ongoing best practices which are in vogue both in domestic and global arena. Professional expertise of both the academia and industry doyens is well blended in the syllabi. To achieve six important skill sets- Knowledge, Comprehension, Application, Analysis, Synthesis and Evaluation based on four knowledge pillars as Management, Strategy, Regulatory Function and Financial Reporting, the CMA course entails skills for employability worldwide. Communication and soft skill sessions coupled with rigorous computer training help the students to enhance knowledge and to face the challenges.

The June term of examination is over. You have silently studied for weeks, and now you need to wait for your results to get published. Those who have worked hard, and studied meticulously, your success will be loud and proud. You are strong, you are well prepared and you will succeed. All the hard work is about to pay off in success and cheers. I firmly believe that you can achieve your target.

As you are aware that study materials are continuously updated for incorporation of necessary amendments paper wise where those are extremely needed and also the same is carried out in all the papers with the view of providing you the needed and relevant information. Answers to Mock Test Papers (MTPs) and Model Question Papers (MQPs) have been uploaded. Please refer to those publications, published and/ or uploaded by the Directorate of Studies (D.O.S.) for your steady professional development.

"Education is the key to unlocking the golden door of freedom" I strongly believe that our students will conquer the World in their own way,

Good luck to you all,

CMA Ashwin G. Dalwadi
President,
The Institute of Cost Accountants of India

Message from the CHAIRMAN

Dear Students,

Greetings!!!
It gives me immense pleasure to address you as the Chairman of the Training & Education Facilities Committee of the Institute.

A student's world is a beautiful yet mysterious embroidery made up of a multitude of hopes and aspirations dyed in bright colours of thought and deed and their world is very much influenced by the environment of the institutions they are attached with.

The Institute of Cost Accountants of India and more specifically the Directorate of Studies, strive hard to strive to provide resources that enhance your journey from student to a professional. The implicit promise of The Institute has always been a transformative education, rooted in the highest standards of academic excellence, nurtured by ethics and values and enriched by the opportunity to learn in the best settings.

I want to congratulate to all the aspirants of June, 2023 term of examinations and also to the prospective students of the forthcoming December 2023 term of examinations, well in advance! Moreover, you must have noticed and delighted to know that we are back to the original date of examinations from the December, 2023 term of examinations. I request to all of you to regularly look into the Students portal of the Institute to keep yourselves up to date.

I extend my heartfelt gratitude to the academicians engaged in the process and every effort of them, are highly appreciated, who has contributed towards making learning through Students E-bulletin so meaningful.
As we embark on this exciting journey, I want you to know that our new council and Training & Educational Facilities Committee is here to listen, support, and work alongside each and every one of you. We welcome your thoughts, suggestions, and feedback with open arms
Let us make this academic year one to remember—a year of growth, inspiration, and unity. Together, we will leave an indelible mark on our institute and profession and create a legacy that future generations of students can proudly carry forward
May you all continue to scale greater and insurmountable heights of excellence,

Best wishes,

CMA Vinayranjan P.
Chairman, Training & Education Facilities Committee
The Institute of Cost Accountants of India

KNOWLEDGE Update

In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

GROUP: 3, PART: 13

CORPORATE

LAWS & COMPLIANCE - (CLC)

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Company Secretary & Consultant
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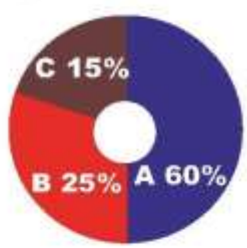
Your Preparation Quick



Syllabus Structure
A Companies Act 60%
B Other Corporate Laws 25%
C Corporate Governance 15%

Learning Objectives:

Read the Study Material minutely.

- For details or if you don't understand Study Material or the section is important to identify the topic, then refer to Bare Act, otherwise reference to Bare Act is not necessary. For Company Law, book by Avtar Singh is recommended. For other laws Institute Study Material is sufficient.
- The words used in any of the texts as mentioned above should be understood by immediate reference to the Dictionary.
- The main points coming out in any of the provisions should be either underlined or written in separate copy which has to be repeated again and again.
- Theoretical knowledge should be adequate and clear before solving practical problems.
- Don't write wrong English. It changes the meaning and therefore answer may be wrong even when the student's conception is clear. Also don't make spelling mistakes.

CAPITAL MARKET TERMINOLOGIES

1.1 Contract:

'Contract' means a contract for or relating to the purchase or sale of securities.

1.2 Securities:

'Securities' includes the following:

- Shares, scrip, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in any incorporated company or other body corporate.
- Derivative.
- Government securities.
- Rights or interests in securities.
- Such other instruments as defined in clause (zg) of section 2 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

1.3 Government security:

'Government security' means a security created and issued, whether before or after the commencement of this Act, by the Central Govt. or a State Govt. for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debts Act, 1944.

1.4 Derivative:

'Derivative' includes-

- A security derived from a debt instrument, share, loan, whether secured or not, risk instrument or contract for differences or any other form of security;
- A contract which derives its value from the prices, or index of prices, of underlying securities.

1.5 <u>Beneficial owner:</u>

1.6 "Beneficial owner" means a person whose name is recorded as such with a depository.

1.7 <u>Depository:</u>

"Depository" means a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration by SEBI Act, 1992.with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exception; (b) dematerializing the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form.

Process:

The depository system involves:

(a) Conversion of securities from physical mode to electronic mode.
(b) Settlement of trades in electronic segment.
(c) Electronic transfer of ownership.
(d) Electronic custody of securities.
(e) All the securities are identical in all respects and are fungible.
(f) The system is not mandatory for the owner of the securities but it is mandatory for the companies.

1.8 <u>Merchant Banker:</u>

A financial intermediary who can manage issue of shares, make valuation of shares and is involved in various formalities of issue and transfer of securities.

1.9 <u>Broker</u> – a person who is agent of either buyer or seller. In case of market transaction, brokers should be registered with SEBI.

1.10 <u>Stock Exchange</u> – a company which provides a platform for buying and selling of securities through brokers and is called market transaction. Only CG authorized exchanges can operate.

1.11 <u>Underwriter</u> – any person/organization who agrees to subscribe securities in case they are not subscribed by investors in public issue.

1.12 <u>Share Transfer Agents</u> – organizations who keep account of share transfer for other companies.

1.13 <u>Insider Trading</u> – passing of information by any insider of a company. Insider means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to the unpublished price sensitive information in respect of securities of a company

, or who has received or has had access to such unpublished price sensitive information. Price sensitive information' means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of the securities of the company.

1.14 Book Building Process – Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from Qualified Institutional Buyers (QIB).

1.15 Promoter – Person/persons controlling the plan/programme of the company pursuant to which public issue is made. Directors in professional capacity are not promoters.

1.16 Promoter's Group – (1) Promoter's relative. (2) In case of a company – (a) Subsidiary/holding company. (b) Any company whose promoter holds 10% or more of the equity or which holds 10% or more of the promoter.

1.17 Red Herring Prospectus – This is an indicative prospectus without any details of price and number of shares or amount of issue. The floor price or price band is declared one day prior to the opening the issue. After the price is obtained through bidding the offer document is filed as prospectus.

1.18 Abridged Prospectus –

- Salient features of prospectus and accompanied with a form.

- Letter of offer – documents for rights issue filed Stock Exchange.

- Abridged Letter of Offer – abridged form of the above, compulsorily to be sent to each shareholder. Details to be given on request.

2.0 SEBI Regulations (Issue of Capital and Disclosure Requirements).

2.1 Entry Norms (IPO or FPO)

At least 25 per cent of each class or kind of securities issued by a company is offered to the public for subscription through advertisement in newspapers. The limit of 25% can be relaxed to 10% if following conditions are satisfied:

a) Minimum 20 lakh securities (excluding reservations, firm allotment and promoters' contribution) are offered to the public;
b) The size of the offer to the public, i.e. the offer price multiplied by the number of securities offered to the public was minimum Rs.100 crores; and
c) The issue was made only through book building method with allocation of 60 per cent of the issue size to the qualified institutional buyers as specified by the Securities and Exchange Board of India;

Recognized stock exchange may relax any of the conditions with the previous approval of the SEBI, in respect of a Government company.

2.2 An unlisted company may make an initial public offering (IPO) of equity shares or any other security, which may be converted into or exchanged with equity shares at a later date, only if it meets all the following conditions:

(i) The company has net tangible assets of at least 3 crores in each of the preceding 3 full years (of 12 months each), of which not more than 50% is held in monetary assets:

Provided that if more than 50% of the net tangible assets are held in monetary assets, the company has made firm commitments to deploy such excess monetary assets in its business/project;

(ii) The company has a track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for at least (3) out of immediately preceding five (5) years.

Provided further that extraordinary items shall not be considered for calculating distributable profits in terms of Section 205 of the Companies Act, 1956;

(iii) The company has a net worth of at least 1 crore in each of the preceding 3 full years (of 12 months each)

(iv) In case the company has changed its name within the last one year, at least 50% of the revenue for the preceding 1 full year is earned by the company from the activity suggested by the new name; and

(v) The aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (i.e., offer through offer document + firm allotment + promoters' contribution through the offer document), does not exceed five (5) times its pre-issue net worth as per the audited balance sheet of the last financial year.)

(vi) Eligibility – Unlisted company whose commercial operation of less than two years and the post issue capital shall not exceed Rs.5 crore and not less than Rs.3 crore.

vii) Appoint market maker to the issue on all stock exchanges where the securities are proposed to be listed.

viii)The unlisted companies whose capital after the proposed issue of securities is less than Rs.3 crore shall be eligible to be listed only on the Over the Counter Exchange of India.

2.3 <u>Pricing by Companies Issuing Securities</u>

An unlisted company eligible to make a public issue and desirous of getting its securities listed on a recognized stock exchange may freely price its equity shares.

2.4 <u>Price Band:</u>

Issuer company can mention a price band of 20% in the offer document filed with the Board and actual price can be determined at a later date before filing of the offer document with the ROCs.

2.5 <u>Promoters' Contribution and Lock-in Requirements.</u>

In a public issue by an unlisted company, the promoters shall contribute not less than 20% of the post issue capital.

Promoters shall bring in the full amount of promoters' contribution including premium at least one day prior to the issue opening date.

Minimum Promoters' contribution

Lock-in period: 3 years.

Excess Promoters' contribution:

Lock in period: 1 year.

2.6 <u>Book Building Process:</u> Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from subsidiaries. RHP do not contain price. It contains either the floor price or a price band.

2.7 <u>Pre- issue Obligations:</u>

1.The lead merchant banker shall exercise due diligence.

1. Documents to be submitted along with the offer document by the Lead Manager:
    - Memorandum of Understanding.
    - *Inter se* allocation of responsibilities
    - Due diligence certificate.
    - Undertaking.
    - List of Promoters' group and other details.
    - Appointment of intermediaries like merchant bankers, co-managers and other intermediaries.

2.8 <u>Public Issue Steps:</u>

- The lead merchant banker's minimum underwriting obligation: 5% of the total underwriting commitment or Rs.25 lakhs whichever is less.
- Offer document to be made Public.
- Pre-issue advertisement.
- IPO grading: By rating agency approved by SEBI.
- Despatch of issue material.
- No complaints certificate.
- Mandatory collection centers of applications in major cities.
- Authorized collection agents.
- Appointment of compliance officers: To be notified in the advertisement who is responsible for the compliance.
- Agreement with depositories: For data access of shareholders

2.9 <u>Reservation for Employees</u>:

- As per Rule 19(2)b of SC(R) rules, 1957 the reservation for employees cannot exceed 10% of the total issue amount.

The main object of the SEBI Act are as follows:

(a) Protect the interests of the investors in securities.
(b) Promoting orderly and healthy growth of the securities market.
(c) Regulation of the securities market and other incidental matters.
(d) Promoting the fair dealings by the issuer of securities and raising of funds at a relatively lower cost.
(e) Monitoring the activities of stock exchanges, mutual funds and merchant bankers etc.

3.0 <u>Powers of SEBI</u>

(1) Specific powers like regulating the business of stock exchanges, registering and regulating the functions of stock brokers, share transfer agents, bankers, registrars, trustees, underwriters, portfolio managers etc.
(2) Power to make inspection.
(3) Powers of civil court exercisable by SEBI.
(4) Power to issue direction.
(5) Power to regulate and prohibit the issue of prospectus.
(6) Power to seize documents like books and papers.

4.0 Guidelines on initial public issue through the stock exchange

1) Agreement with the stock exchange.
2) Appointment of brokers.
3) Appointment of Registrar to the issue.
4) Listing.
5) Responsibility of Lead Managers.
6) Mode of operation.
7) Demat

5.0 Book Building:

SEBI Guidelines define Book Building as a process undertaken by which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document

Difference between offer of shares through book building and offer of shares through normal public issue:

Price at which securities will be allotted is not known in case of offer of shares through book building while in case of offer of shares through normal public issue, price is known in advance to investor. In case of Book Building, the demand can be known everyday as the book is built. But in case of the public issue the demand is known at the close of the issue.

GROUP: 3, PART: 14

STRATEGIC

FINANCIAL MANAGEMENT - (SFM)

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Your Preparation Quick

Syllabus Structure

A Investment Decisions **25%**
B Financial Markets and Institutions **20%**
C Security Analysis and Portfolio Management **25%**
D Financial Risk Management **30%**

Learning Objectives:

After studying this section on Strategic Financial Management, you will be able to:

- understand the direct and indirect quotations
- know the European terms and American terms

Strategic Financial Management

Case Study 1

B Ltd. is considering whether to set up a division in order to manufacture a new Product A. The following statement has been prepared, showing the projected profitability per unit of the new product: (Rs.)

Selling price			22.00
Less: Direct labour	(2 hours @ Rs. 2.50 per hour)	5.00	
Material	(3 kg. @ Rs. 1.50 per kg.)	4.50	
Overheads		11.50	21.00
Net profit per unit			1.00

A feasibility study, recently undertaken at a cost of Rs. 50,000, suggests that a selling price of Rs. 22 per unit should be set. At this price, it is expected that 10,000 units of A would be sold each year. Demand for A is expected to cease after 5 years. Direct labour and material costs would be incurred only for the duration of the product life.

Overheads per unit have been calculated as follows: *(Rs.)*

Variable overheads		2.50
Rent	(Note 1: Rs. 8.000/ 10,000 units)	0.80
Manager's salary	(Note 2: Rs. 7,000/10,000 units)	0.70
Depreciation	(Note 3: Rs. 50,000/10,000 units)	5.00
Head office costs	(Note 4: 2 hours @ Rs. 1.25 per hour)	2.50
		11.50

Notes:

1. Product A would be manufactured in a factory rented specially for the purpose. Annual rental would be Rs. 8,000 payable only for as long as the factory was occupied.
2. A manager would be employed to supervise production of Product A, at a salary of Rs. 7,000 p.a. The Manager is at present employed by B Ltd. but is due to retire in the near future on an annual' pension of Rs. 2,000, payable by the company. If he continued to be employed, his pension would not be paid during the period of his employment. His subsequent pension rights would not be affected.
3. Manufacture of the Product A would require a specialized machine costing Rs. 2,50,000. The machine would be capable of producing Product A for an indefinite period, although due to its specialized nature, it would not have any resale or scrap value when the production of Product A ceased. It is the policy of B Ltd. to provide depreciation on all fixed asset using straight line method. The annual charge of Rs. 50,000

for the new machine is based on a life of five years, equal to the period which Product A are expected to be produced.

4. B Ltd. allocates its head office fixed costs to all products at the rate of Rs. 1.25 per direct labour hour. Total head office fixed costs would not be affected by the introduction of the Product A to the company's range of products.

The cost of capital of B Ltd. is estimated at 5% p.a. in real terms and you may assume that all costs and prices given above will remain constant in real terms. All cash flows would arise at the end of each year, with the exception of the cost of the machine which would be payable immediately.

The management of B Ltd. is very confident about the accuracy of all the estimates given above, with the exception of those relating to product life, the annual sales volume and material cost per unit of Product A.

You are required to decide whether B Ltd. should proceed with manufacture of the Product A.

Ignore taxation.

The present value of annuity for 3 years, 4 years and 5 years at 5% respectively are 2.72, 3.55 and 4.33.

Solution:

(1) Cost of machine at 0 years = Rs. 2,50,000

(2) Variable Production Cost per annum (Rs.)

Material cost p.u.	**4.50**
Direct Labour cost p.u.	**5.00**
Variable overheads p.u.	**2.50**
	12.00
Variable production on cost p.a. (10,000 units × Rs. 12)	**1,20,000**

(3) Manager's Salary (Rs.)

Salary payable p.a.	**7,000**
Less : Pension not payable	**2,000**
Net salary payable	**5,000**

(4) Depreciation is a non-cash item, need not be considered in computation of cash flow.

(5) Head office cost is a committed cost and is irrelevant for decision making.

Calculation of Net Present Value

		(Rs.)
Sales p.a.		2,20,000
Less: Variable production cost p.a.	1,20,000	
Manger's salary p.a.	5,000	
Factory rent p.a.	8,000	1,33,000

Cash inflow p.a.	87,000
Present value of cash inflows for 1 to 5 years Discount factor @ 5% (87,000 × 4.33)	3,76,710
Less: Cost of machine	2,50,000
Net present value	1,26,710

Since, net present value is positive, it is suggested to manufacture Product A.

Case Study 2

Playtime Ltd. manufactures toys and other short-lived fad items. The Research and Development department has come up with an item that would make a good promotional gift for office equipment dealers. As a result of efforts by the sales personnel, the firm has commitments for this product. To produce the quantity demanded, Playtime Ltd. will need to buy additional machinery and rent additional space. It appears that about 25,000 sq. ft. will be needed; 12,500 sq. ft. of presently unused space, but leased at the rate of Rs. 3 per sq. ft. per year, is available. There is another 12,500 sq. ft. adjoining the facility available at the annual rent of Rs. 4 per sq. ft.

The equipment will be purchased for Rs. 9,00,000. It will require Rs. 30,000 in modifications and Rs. 1,50,000 for installation. The equipment will have a salvage value of about Rs. 2,80,000 at the end of the third year. It is subject to 25% depreciation on reducing balance basis. The firm has no other assets in this block. No additional general overheads costs are expected to be incurred.

The estimates of revenues and costs for this product for three years have been developed as follows:

(Rs.)

Particulars	Year 1	Year 2	Year 3
Sales	10,00,000	20,00,000	8,00,000
Less: Costs:			
Material, labour and overheads	4,00,000	7,50,000	3,50,000
Overheads allocated	40,000	75,000	35,000
Rent	50,000	50,000	50,000
Depreciation	2,70,000	2,02,500	Nil
Total costs	7,60,000	10,77,500	4,35,000
Earnings before taxes	2,40,000	9,22,500	3,65,000
Less: Taxes	84,000	3,22,875	1,27,750
Earnings after taxes	1,56,000	5,99,625	2,37,250

If the company sets a required rate of return of 20% after taxes, should this project be accepted?

Note: P.V. factor @ 20% for Year 1 0.833, Year 2 0.694, and Year 3 0.579

Solution:

Tax rate = 84,000/2,40,000 × 100= 35%

Calculation of Loss on Sale of Equipment (Rs.)

Cost of equipment		9,00,000
Modification cost	(Rs. 30,000 + Rs. 1,50,000)	1,80,000
Initial cash outlay		10,80,000
Less: 1st year depreciation		2,70,000
	(Rs. 10,80,000 X 25/100)	8,10,000
Less: 2nd year depreciation		2,02,500
Written down value at the beginning of 3rd year	(Rs. 8,10,000 X 25/100)	6,07,500
Less: Salvage value		2,80,000
Loss on sale of equipment		3,27,500

Opportunity cost of lease rent lost= 12,500 sq. ft. × Rs. 3 = Rs. 37,500

Calculation of Cash Inflow			***(Rs.)***
Particulars	*Year I*	*Year 2*	*Year 3*
Sales	10,00,000	20,00,000	8,00,000
Incremental Cost:			
Material, labour and overhead	4,00,000	7,50,000	3,50,000
Opportunity cost of lease rent lost	37,500	37,500	37,500
Rent payable	50,000	50,000	50,000
Depreciation	2,70,000	2,02,500	-
	7,57,500	10,40,000	4,37,500
EBT	2,42,500	9,60,000	3,62,500
Less: Tax @ 35%	84,875	3,36,000	1,26,875
EAT	1,57,625	6,24,000	2,35,625
Add: Depreciation	2,70,000	2,02,500	-
Cash inflow after tax	4,27,625	8,26,500	2,35,625

Calculation of Present Value of Cash Inflow After Tax

			(Rs.)
Year	*Cash inflow after tax*	*D.F. @ 20%*	*Present value*
1	4,27,625	0.833	3,56,212
2	8,26,500	0.694	5,73,591
3	2,35,625	0.579	1,36,427

3 (Salvage value)	2,80,000	0.579	1,62,120
3 Tax advantage on short-term loss {3,27,500 × 0.35)	1,14,625	0.579	66,368
P.V. of cash inflow			12,94,718

NPV = Rs. 12,94,718 - Rs. 10,80,000 = Rs. 2,14,718

Since NPV of the Project is positive, it is suggested to accept the project.

GROUP: 3, PART: 15

STRATEGIC

COST MANAGEMENT DECISION MAKING - (SCMD)

CMA(Dr.) Sreehri Chava
Cost & Management Consultant,
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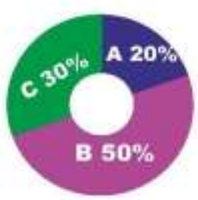
Your Preparation Quick



Syllabus Structure
A Cost Management **20%**
B Strategic Cost Management Tools and Techniques **50%**
C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Learning Objectives:

The Strategic cost management framework provides a clear plan of attack for addressing costs and decisions that affect them. It helps to get answers on:

- Is there a plan for strategic cost management
- Have the controlling functions for each significant cost in the organization been identified
- Are there resources devoted to finding or obtaining new approaches to breaking cost barriers
- Is cost modelling being used or is there an active effort to develop or buy cost modeling capability

Income Profile of IndiGo

1.00: Introduction

'Top-line steers the Bottom-line', thus goes the traditional corporate saying. In this context, top-line refers to 'Revenue' and the bottom-line refers to Profit. The entrenched belief is that higher the revenue, higher would be the profit. In the process, close monitoring of the revenue has been considered as the primary parameter for monitoring the performance of an entity. Ever since, every corporate entity has been searching ways and means to prop up its sources of revenue and thereby the profit. The proposition may be examined by analysing the income profile of IndiGo Airlines.

2.00: IndiGo

IndiGo airlines is owned and operated by InterGlobe Aviation Limited, a company listed on BSE. IndiGo advocates itself as "India's most preferred airline which offers affordable fares, flights that are on-time, and provides a courteous and hassle-free service across unparalleled network". The tagline is 'India Prefers to Travel with IndiGo' and the theme driver is 'Towards New Heights & Across New Frontiers'.

The entity outlines its purpose as 'Giving wings to the nation by connecting people and aspirations'; states its mission as 'To be India's preferred airline for connectivity in and with India, and by doing so being one of the leading airlines in the world' and specifies its mission as 'IndiGo is on a mission to boost economic growth, social cohesion and mobility in India by developing our own model with affordable air connectivity, on-time performance and hassle-free service across our country and the globe'.

As has been reported in the company's annual report for 2022-23, the event-timeline of IndiGo's journey reads as follows:

Year	Event
2006	IndiGo commences operations
2009	IndiGo becomes profitable
2011	IndiGo goes international
2014	IndiGo gets delivery of its 100th aircraft
2015	IndiGo goes public

2017	IndiGo orders ATR
2017	Serves 46 destinations
2018	IndiGo signs codeshare with Turkish Airlines
2018	IndiGo gets delivery of its 200th aircraft
2022	Serves 100+ destinations
2022	Started freighter business
2022	First Indian airline to have a fleet of 300

Evidently, the journey throughout is quite impressive and the stride continues into the foreseeable future.

During the year 2022-23, the airlines has, reportedly, possessed a fleet of 304 aircrafts; employed 32,407 personnel; achieved a load factor of 82.1%; flown across 78 domestic & 22 international destinations; carried 86 million passengers; tied up with 7 codeshare partners; and garnered Rs.54,447 crores of revenue from operations. As of 21st August 2023, the company's equity shares are traded in the range of Rs.2,450/- per share with a PE of 24.66 and market capitalisation (full) of Rs.94,560 crores.

IndiGo at a Glance

Fleet	304
Employees	32,407
Load Factor	82.1%
Domestic Destinations	78
International Destinations	22
Passengers (2022-23)	86 Millions
Operating Revenue (Fiscal Year 2022-23)	Rs.54,447 crores
Market Capitalisation (21st August 2023)	Rs.94,560 crores

3.00: Elements of Income

Elements of Income in relation to IndiGo may be classified into five broad items comprising:

1. Income from Passenger Services
2. Income from Cargo Services
3. Trading Margin from Inflight Sales
4. Other Operating Income
5. Other Income

Income from Passenger Services primarily refers to the ticketing and related revenue emanating from passengers; Income from Cargo Services basically comprises freight based revenue; Trading Margin from Inflight Sales reflects the excess of sales revenue over the purchase cost of goods traded inflight; and Other Operating Income includes operating incentives, subsidies, others and margin generated from packaged tours. The scope of other income is quite broader and it does include items like interest on fixed deposits, gain on sale of current investments, profit on sale of fixed and other assets, gain on foreign currency transactions, credits on accounts of liabilities written off, and so on.

4.00: Facts & Figures

Income profile of IndiGo for the financial years from 2010-11 to 2022-23 is tabulated in terms of Rs. crores in table-1; and in terms of percentages in table-2.

Table-1: Income Profile of IndiGo (Rs. Crores)

Year	Passenger Services	Cargo Services	Margin on Inflight Sales	Other Operating Income	Other Income	Total
2010-11	3541.79	245.12	19.37	-0.02	121.93	3928.19
2011-12	5194.84	290.37	27.03	2.49	165.67	5680.40
2012-13	8660.29	410.29	48.11	23.45	255.24	9397.38
2013-14	10463.43	485.98	44.70	54.06	330.44	11378.61
2014-15	13054.72	653.88	50.49	80.07	394.59	14233.75
2015-16	15108.89	757.67	58.98	98.91	461.39	16485.84
2016-17	17400.99	876.19	36.05	142.18	789.07	19244.48
2017-18	21342.34	1008.52	22.30	521.42	946.86	23841.44
2018-19	26947.36	820.04	256.27	332.80	1324.94	29681.41
2019-20	33840.87	1044.42	304.98	387.50	1536.24	37114.01
2020-21	12961.97	1145.10	47.35	430.73	1036.34	15621.49
2021-22	23910.27	1497.47	129.77	276.96	724.54	26539.01
2022-23	51257.76	1583.70	480.21	838.78	1431.43	55591.88

Table-2: Income Profile of IndiGo (Percentage)

Year	Passenger Services	Cargo Services	Margin on Inflight Sales	Other Operating Income	Other Income	Total
2010-11	**90.16**	**6.24**	**0.49**	**0.00**	**3.10**	**100.00**
2011-12	**91.45**	**5.11**	**0.48**	**0.04**	**2.92**	**100.00**
2012-13	**92.16**	**4.37**	**0.51**	**0.25**	**2.72**	**100.00**
2013-14	**91.96**	**4.27**	**0.39**	**0.48**	**2.90**	**100.00**
2014-15	**91.72**	**4.59**	**0.35**	**0.56**	**2.77**	**100.00**
2015-16	**91.65**	**4.60**	**0.36**	**0.60**	**2.80**	**100.00**
2016-17	**90.42**	**4.55**	**0.19**	**0.74**	**4.10**	**100.00**
2017-18	**89.52**	**4.23**	**0.09**	**2.19**	**3.97**	**100.00**

2018-19	**90.79**	**2.76**	**0.86**	**1.12**	**4.46**	**100.00**
2019-20	**91.18**	**2.81**	**0.82**	**1.04**	**4.14**	**100.00**
2020-21	**82.98**	**7.33**	**0.30**	**2.76**	**6.63**	**100.00**
2021-22	**90.09**	**5.64**	**0.49**	**1.04**	**2.73**	**100.00**
2022-23	**92.20**	**2.85**	**0.86**	**1.51**	**2.57**	**100.00**
Average	**90.48**	**4.57**	**0.48**	**0.95**	**3.53**	
SD	2.52	1.29	0.26	0.79	1.19	
CV (%)	2.78	28.31	53.45	83.72	33.65	

5.00: Observations

It may be observed from table-1 that the income from passenger services has shot up from Rs.3541.79 crores in 2011-12 to Rs.51257.76 crores (i.e., 14.47 times) by 2022-23; income from cargo services from Rs. 245.12 crores to Rs.1583.70 crores (i.e.,6.46 times); trading margin from inflight sales from Rs. 19.37 crores to Rs.480.21 crores (i.e., 24.79 times); other operating income from Rs. (–) 0.02 crores to Rs.838.78 crores; and other income from Rs. 121.93 crores to Rs.1431.43 (11.74 i.e., times) crores over the period. In the aggregate, the total income has multiplied from Rs.3928.19 crores in 2010-11 to Rs.55591.88 crore (i.e., 14.15 times) by 2022-23. The growth momentum in the top-line is, thus, obvious and self-revealing.

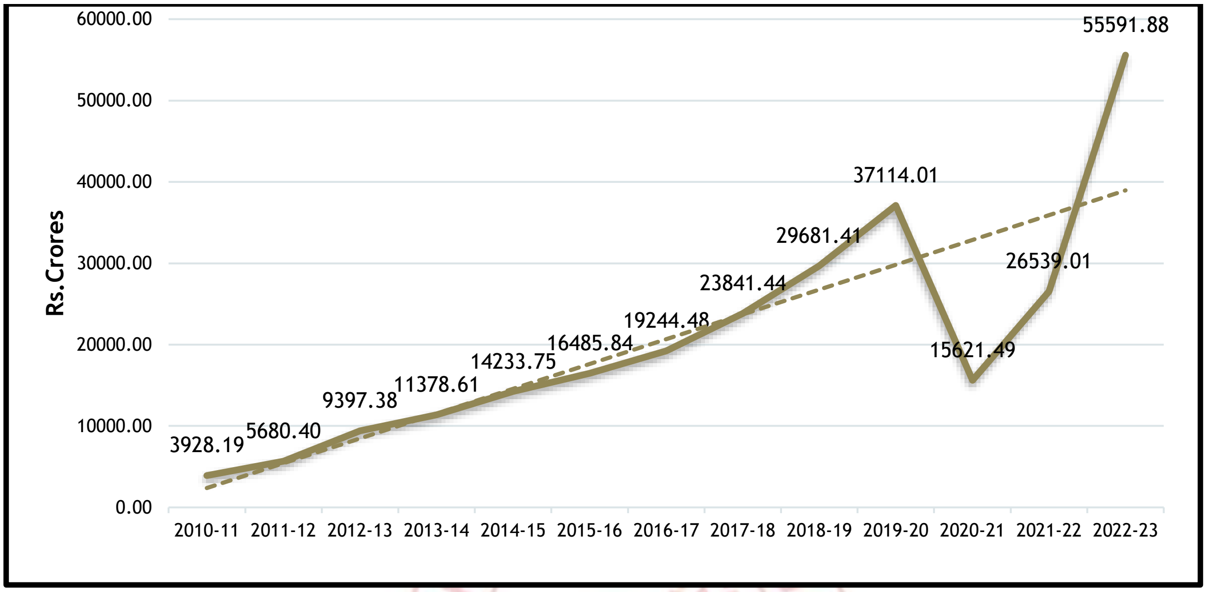
Going by the averages, as may be read from table-2, income from passenger services works out to 90.48% of the total income; income from cargo services to 4.57%; margin on inflight to 0.48%; other operating income to 0.95% and other income to 3.53%. Coefficient of variation, at 83.72%, is maximum in case of other operating income; followed by 53.75% for margin on inflight sales; 33.65% for other income and 28.31% on cargo services. It is the least, at 2.78%, in relation to passenger services. It is relevant, in this context, to recall that higher coefficient of variation implies volatility whereas lower CV indicates stability.

It is worth noting that passenger services and cargo services are a direct reflection of growth in business whereas other operating income and other income could be prone to window dressing. 'Inflight Sales' is a feature specific to IndiGo in the Indian scenario. It is a revenue earned by the entity by means of selling eatables & other products to the passengers during the course of the flight. The margin computes almost to one hundred percent of the cost of purchases. It is, in fact, an innovation whereby the idle time of crew is encashed for generating additional revenue. The efforts of IndiGo in this direction are commendable as also emulative.

6.00: Trend of Total Revenue

The trend of total revenue of IndiGo over the thirteen-year period from 2010-11 to 2022-23 is presented by means of a graph that follows.

Trend of Total Revenue of IndiGo



The graph reveals a stable linear growth, but for the COVID fiasco of 2019-20 and 2020-21. Even for the COVID patch, the recovery is 'V' shaped, thus reflecting the jump-back act. Put it in a nutshell, the growth trend of the top-line of IndiGo continues – hassle free – further and further!

7.00: Do it Yourself

(i) Trace out the growth track of IndiGo.
(ii) Narrate the ways and means of propping up revenue in relation to Aviation Industry.
(iii) Elaborate some avenues that are prone to window dressing.
(iv) Write a note on IndiGo's inflight sales.

Resources: Annual Reports of IndiGo for various years.

GROUP: 3, PART: 16

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DIRECT TAX

LAWS AND INTERNATIONAL TAXATION - (DTI)

Your Preparation Quick

Syllabus Structure
A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Case Study Analysis **20%**

Learning Objectives:

- To develop basic idea about the problem of International double taxation
- To get acquainted with the methods of reliefs
- To have acquaintance with the basic provisions of the provisions of the Indian Income-tax Act regarding reliefs for double taxation.

Tax Planning, Tax Evasion and Tax Avoidance

Tax law reflects the complexity of modern life and the multitude of choices and options available to all taxpayers when legitimately seeking to structure their affairs. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer and means that determining the right amount of tax (but no more) that they seek to pay does necessarily requires the exercise of judgement on occasion. So long as the exercise of that judgement seeks to ensure that the taxpayer makes choices that exercise options clearly allowed by law and that they do not exploit unintended loopholes created between laws then that process of a taxpayer choosing how to structure their affairs is the process of tax planning, which is a legitimate, proper and socially acceptable act.

Thus, tax planning is a systematic evaluation of finances and investments, to reduce the tax burden in a legitimate way. It involves understanding the tax implications of various cash inflows and outflows such as salary composition, property income, home loan, investments, sale or purchase of assets, gifts and interest-bearing deposits, to draw up an appropriate investment strategy that allows realization of financial goals while at the same time reducing tax liability to minimum.

It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. The two basic approaches of tax planning are:

1. ***Reducing taxable income*:** As a rule, higher the income or profit, higher the tax liability on such income or profit. Gross income is total profits or income from all sources, and taxable income is such gross income less adjustments allowable under various tax laws and other provisions. Such adjustments bases itself on the nature of income and expenditure. Opting for the income or expenditure heads that allows maximum set-offs from the gross income reduces taxable income, and by extension tax liability.

2. ***Deferring payment of taxes to the extent possible*:** An underestimated dimension of tax planning is timing investments and financial transactions so that the tax liability for such transactions arises at the farthest possible time. While this does not reduce the amount of tax payable, it delays tax outgo, thereby effectively providing interest-free cash on hand. Individuals may not need to resort to such a strategy, but delayed pay-out is valuable for small businesses that very often face cash flow difficulties.

The goal of tax planning is to arrange your financial affairs so as to minimize your taxes. It is the planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act

Objectives of Tax Planning

Tax planning is an exercise undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. The objectives of tax planning cannot be regarded as offending any concept of the taxation laws and subjected to reprehension of reducing the inflow of revenue to the Government's coffer, so long as the measures are in conformity with the statue laws and the judicial expositions thereof. The basic objectives of tax planning are:

a. ***Reduction of Tax liability***

Tax law provides multiple choices and options to taxpayers. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer. However, due to lack of awareness of legal requirements, in many a cases, a taxpayer may suffer heavy taxation. Through proper tax planning and awareness, a tax payer may reduce such heavy tax burden.

b. Minimisation of litigation

In the matter of taxation, the tax payers will try to pay the least tax and on the other hand, the tax administrator will attempt to extract the maximum. This conflict behaviour may results into litigations. However, where proper tax planning is adopted by the tax payer in conformity with the provisions of the taxation laws, the incidence of litigation can be minimised. This saves him from the hardships and inconveniences caused by the unnecessary litigations.

c. Productive investment

A tax payer may reduce heavy tax burden through proper tax planning. Such reduction results into reduction in cash-outflow. In the days of credit squeeze and dear money conditions, even a rupee of tax decently saved may be taken as an interest-free loan from the Government, which perhaps, an assessee need not repay. Such retained cash can be utilised in other productive venture which also provide additional earning to the taxpayer. That means, proper tax planning is a measure of proper utilisation of available resources which in turn maximise the cash-inflow and minimise the tax burden.

d. Healthy growth of economy

The growth of a nation's economy is synonymous with the growth and prosperity of its citizens. In this context, a saving of earnings by legally sanctioned devices fosters the growth of both, because savings by dubious means lead to generation of black money, the evils of which are obvious. Conversely, tax-planning measures are aimed at generating white money having a free flow and generation without reservations for the overall progress of the nation. Tax planning assumes a great significance in this context.

e. Economic stability

Tax planning results in economic stability by way of:

(i) productive investments by the tax payers; and

(ii) harnessing of resources for national projects aimed at general prosperity of the national economy and reaping of benefits even by those not liable to pay tax on their incomes.

Essentials of Tax Planning

Following are the essentials of tax planning:

- Uptodate Knowledge of tax laws alongwith circulars, notifications, clarifications and Administrative instructions issued by the CBDT.
- Disclosure of full and true material information
- Avoid sham transactions or make-believe transactions or colourable devices
- Foresight of future development or changes and enterprise's goal.

Types of Tax Planning

The tax planning exercise ranges from devising a model for specific transaction as well as for systematic corporate planning. These are:

(a) ***Short-range and long-range tax planning:*** Short-range planning refers to planning to achieve some specific or limited objective of particular fiscal year. E.g., an individual assessee whose income is likely to register unusual growth in particular year as compared to the preceding year, may plan to subscribe to the PPF/NSC's within the prescribed limits in order to enjoy substantive tax relief. By investing in such a way, he is not making permanent commitment but is substantially saving in the tax. Long-range planning on the other hand, involves entering into activities, which may not pay-off immediately. E.g., when an assessee transfers his equity shares to his minor son he knows that the Income from the shares will be clubbed with his own income. But clubbing would also cease after his son attains majority.

(b) ***Permissive tax planning*****:** Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.

(c) ***Purposive tax planning*****:** Purposive tax planning is based on the basis of circumvention of the law. The permissive tax planning has the express sanction of the Statute while the purposive tax planning does not carry such sanction. E.g., If an assessee manages his affairs in such a way that his income is taxable in hands of other person without attracting clubbing provision, such a plan would work in favour of the tax payer because it would increase his disposable resources.

Ethical way of reducing tax

Tax planning is an art of logically planning one's financial affairs, in such a manner that benefit of all eligible provisions of the taxation law can be availed effectively so as to reduce or defer tax liability. As tax planning follows an honest approach, by conforming to those provisions which fall within the framework of the taxation law. However, many time in the name of planning, assessee misleads the law, with / without making an offence. And to do so, the tax payer uses any scheme or arrangement, which reduces, defers and even completely prevents the payment of tax. This may also be done by shifting of tax liability to another person, so as to minimise the incidence of tax.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, submitting misleading information, falsification of accounts and willful violation of the provisions of the Income-tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases. It is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation. It is a grave problem in a developing country like ours as it leads to a creation of a 'resource crunch' for developmental activities of the State.

Tax avoidance is an exercise by which the assessee legally takes advantages, with malafide motive, of loopholes in the Act. Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is a practice of dodging or bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. E.g. if A gives gift to his wife, the income from the asset gifted will be clubbed in the hand of A. But to avoid this clubbing provision "A" decides to give gift to B's wife and B reciprocates it by giving gift to A's wife. This is not tax planning but tax avoidance. Most of the amendments are aimed to curb such loopholes.

The Direct Taxes Enquiry Committee (Wanchoo Committee) has tried to draw a distinction between the two items in the following words.

"The distinction between 'evasion' and 'avoidance', therefore, is largely dependent on the difference in methods of escape resorted to. Some are instances of merely availing, strictly in accordance with law, the tax exemptions or tax privileges offered by the government. Others are maneuvers involving an element of deceit, misrepresentation of facts, falsification of accounting calculations or downright fraud. The first represents what is truly tax planning, the latter tax evasion. However, between these two extremes, there lies a vast domain for selecting a variety of methods which, though technically satisfying the requirements of law, in fact circumvent it with a view to eliminate or reduce tax burden. It is these methods which constitute "tax avoidance".

The Royal Commission on Taxation for Canada has explained the concept of tax avoidance as under:

"Tax Avoidance" will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provisions or lack of provisions of law. It excludes fraud, concealment or other illegal measures.

Line of demarcation

The line of demarcation between tax avoidance and tax planning is very thin and blurred. There are two thoughts about tax avoidance –

a) As per first thought it is legal. Such thought is also supported by various judgments of the Supreme Court, some of them are as follows –

***Helvering vs. Greggory* (1934)**

"Anyone may so arrange his affairs that his taxes shall be as low as possible. He is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

***IRC vs. Duke of Westminster* (1936)**

"Taxpayer is entitled to so arrange his affairs that the tax under the appropriate Act is less than what otherwise it could be."

***Inland Revenue Commissioners vs. Fishers Executors* (1958)**

"The highest in authority, have always recognized that the subject is entitled so to arrange his affairs as not to attract taxes imposed by the Crown, so far he can do so within the law, and that he may legitimately claim the advantage of any express terms or any omissions that he can find in his favour in taxing Act. In doing so, he neither comes under liability, nor incurs blame."

***CIT vs. Raman & Co.* (1968)**

"Avoidance of tax liability by so arranging commercial affairs that the charge of tax is distributed, is not prohibited. A taxpayer may resort to a device to divert the income before it accrues or arises to him. Effectiveness of the device depends not upon considerations of morality, but on the operation of the Income-tax Act."

***Smt. C. Kamala vs. CIT* (1978)**

"It is quite possible that when a transaction is entered into in one form known to law, the amount received under that transaction may attract liability under the Act and if it is entered into in another form which is equally lawful, it may not attract such tax liability. But when the assessee has adopted the latter one, it would not be open to the court to hold him liable for tax."

***CWT vs. Arvind Narotham* (1988)**

"It is true that tax avoidance in an underdeveloped or developing economy should not be encouraged on practical as well as ideological grounds. One would wish….. that one could get the enthusiasm ….. that taxes are the price of civilization and one would like to pay that price to buy civilization. But the question which many ordinary taxpayers very often, in a country of shortages with ostentatious consumption and deprivation for the large masses, ask is, does he with taxes buy civilization or does he facilitate the waste and ostentation of the few. Unless ostentation and waste in Government spending are avoided or eschewed, no amount of moral sermons would change people's attitude to tax avoidance."

b) As per second thought it is not a legal way to reduce tax burden and it should be prohibited.

***McDowell & Co. Ltd. vs Commercial Tax Officer* (1985)**

Supreme Court observed - "we think time has come for us to depart from Westminster principle….tax planning may be legitimate provided it is within the framework of law. Colourable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honourable to avoid the payment of tax by resorting to dubious methods. It is the obligation of every citizen to pay the honestly without resorting to subterfuges."

***CIT vs B.M. Kharwar* (1969)**

Supreme Court held – "the taxing authority is entitled and is indeed bound to determine the true legal relation resulting from a transaction. If the parties have chosen to conceal by a device the legal relation, it is open to the taxing authorities to unravel the device and to determine the true character of relationship. But the legal effect of a transaction cannot be displaced by probing into substance of the transaction."

Justice O. Chinnappa Reddy of Supreme Court has, while briefing the evil consequences of tax avoidance in *Mc.Dowell & Co. Ltd. -vs.- CTO*, observed that one such evil consequence is the ethics (or the lack of it) of transferring the burden of tax liability to the shoulders of the guideless, good citizens from those of artful dodgers. As regards the ethics of taxation, he observed:

"We now live in a welfare State whose financial needs, if backed by law, have to be respected and met. We must recognize that there is behind taxation laws as much moral sanction as behind any other welfare legislation and it is a pretence to say that avoidance of taxation is not unethical and that it stands on no less moral plane than honest payment of taxation".

A similar observation was made by Lord Chancellor *in Latilla vs. Inland Revenue Commissioner (1943) 011 ITR (E.C) 0078:*

"There is, of course no doubt that they are within their legal rights but that is no reason why their efforts, or those of the professional gentlemen who assist them in the matter, should be regarded as a commendable exercise of ingenuity or as a discharge of the duties of the good citizenship. On the contrary, one result of such methods, if they succeed, is of course to increase pro tanto the load of tax on the shoulder of the body of good citizens who do not desire or do not know how to adopt these maneuvers."

Distinguish between Tax Planning, Tax Evasion, Tax Avoidance and Tax Management

Difference between tax planning, tax avoidance, tax evasion & tax management

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee.	It is a procedure to comply with the provisions of the law.
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it.	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organisation.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Approach	It is futuristic and positive in nature. The planning is made today to avail benefits in future.	It is futuristic but short term in nature, as loophole of the law will be corrected in future by amendments of the law.	It is concerned with past and applied after the liability of tax has arisen. It is done with negative approach to avail benefits by	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of

			killing the moral of law.	return, etc.) & future (corrective action).
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It overrules the law.	It implements the law.
Practice	It is tax saving.	It is tax hedging.	It is tax concealment.	It is tax administration.
Need	It is desirable	It is avoidable	It is objectionable	It is essential.
Morality	It is moral in nature.	It is immoral in nature	It is illegal.	It is duty.

Exercise

State whether the following acts can be considered as tax evasion or tax management or tax planning:

(a) Amit paid life insurance premium of ₹ 10,000 on the life of himself and claim entire amount as deduction u/s 80C.

(b) Bikash received remuneration of ₹ 54,000 for acting as a visiting faculty which he did not furnish in his return.

(c) Chandrani submitted her return within the time specified u/s 139(1).

(d) Dulal donated ₹ 10,000 to PM's National Relief Fund and enjoyed deduction in full u/s 80G.

(e) Era deposited ₹ 1,00,000 in SBI in the name of her daughter (age 4 years) and interest on such deposit has not clubbed in her hand.

GROUP: 4, PART: 17

CORPORATE

FINANCIAL REPORTING - (CFR)

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Your Preparation Quick

Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business Comminations & Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **25%**
E Government Accounting in India **15%**

Learning Objectives:

After studying the present section of Corporate Financial Reporting you will be able to:

- Learn how to highlight the achievements of a company to its investors, creditors, bankers, public, employees, regulatory bodies and Government on a periodic basis
- To convey future based strategic roadmap for the company.

Recent Developments in Corporate Reporting

Introduction

Financial Reporting of corporate entities are regulated by the laws of the country and guided by the GAAP of the country and by the adopted or converged IFRS.

These are general purpose financial reporting focused primarily to serve the interest of the shareholders and other investors. In addition to these mandatory financial reporting recently many other formats of reporting relevant for all the stakeholders encompassing Environmental, Social and Governance aspects have been developed.

The status of these other formats of reporting is mostly voluntary and informal in many developing economies including India. These recent developments in corporate reporting includes reporting of

- BRSR
- CSR
- ESG
- IR
- Triple Bottom Line and Quadruple Bottom Line

However, in India –

(1) Corporate Social Reporting and
(2) Business Responsibility and Sustainability Reporting
have been made mandatory for certain corporate entities while they remain voluntary for other entities. In this issue we shall discuss on CSR.

Corporate Social Reporting (CSR)

CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders."

In India companies having Net worth of INR 500 crore or more; or Turnover of INR 1000 crore or more; or Net Profit of INR 5 crore or more during the preceding financial year shall be required to constitute a Corporate Social Responsibility Committee of the Board as per Section 135 of the Companies Act 2013.

What a company covered under CSR needs to do?

1. The CSR Committee shall formulate and recommend a CSR policy to the Board. CSR Committee shall recommend the amount of expenditure to be incurred on the CSR activities to be undertaken by the company. CSR Committee shall monitor the CSR policy of the Company from time to time.
2. From 1 April 2021, Entities carrying out CSR activities are required to file with the Central Government, an e-form namely CSR -1 to generate Unique registration number.
3. To furnish a report on CSR in Form CSR 2 to the Registrar of Companies.
4. To ensure transparency, The Board of Directors of the Company shall mandatorily disclose the composition of the CSR Committee, and CSR Policy and Projects approved by the Board on their website for public access.
5. Every company having average CSR obligation of Rs.10 Crore or more in the three immediately preceding financial years, shall undertake impact assessment, through an independent agency, of their CSR projects having outlays of one crore rupees.
6. The CSR amount may be spent by a company for creation or acquisition of a capital asset, which can be held by specified entities only.
7. Mandatory transfer of unspent CSR amount to any fund included in schedule VII of the Companies Act is required.

Rule 7: CSR Expenditure

1. All such companies shall spend, in every financial year, **at least two per cent of the average net profits** of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. It has been clarified that the average net profits shall be calculated in accordance with the provisions of Section 198 of the Companies Act, 2013. Also, proviso to the Rule provide 3(1) of the CSR Rules that the net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Companies Act, 2013.

2. According to the Companies (CSR Policy) Amendment Rules, 2021, the administrative overheads should not exceed five per cent of the total CSR expenditure of the company for the financial year.

3. The CSR amount may be spent by a company for the creation or acquisition of a capital asset, which shall be held by the following firms:
   - A company established under section 8 of the Act;

- Registered Public Trust or Registered Society, having charitable objects and CSR Registration Number;
- Beneficiaries of the said CSR project, in the form of self-help groups, collectives, entities;
- A public authority.

CSR Activities:

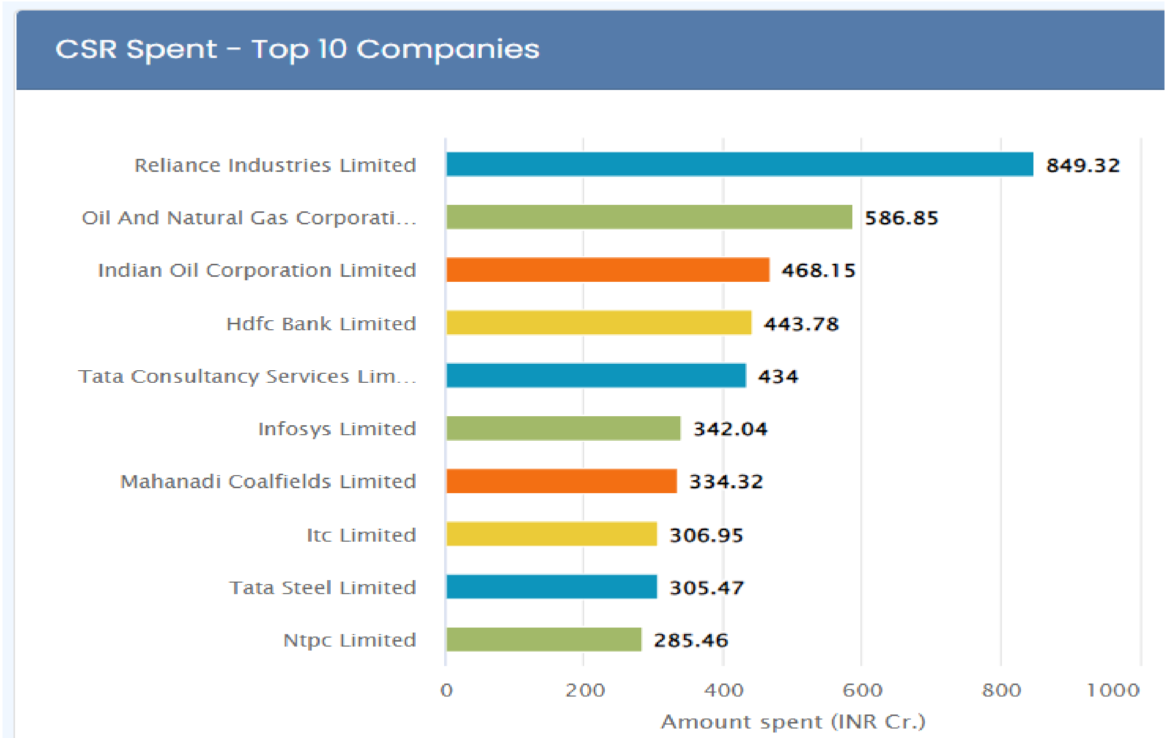
Activities may be included by the company in their CSR Policy as per Schedule VII of the Companies Act, 2013 **(According to the Companies (CSR Policy) Amendment Rules, 2021):**

1. Rural development projects.
2. Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga.
5. Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts.
6. Measures for the benefit of armed forces veterans, war widows and their dependents.
7. Training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports.
8. Contribution to the prime minister's national relief fund or any other fund set up by the Central Govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women.
9. Contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public funded Universities, Indian Institute of Technology (IITs), National Laboratories and Autonomous Bodies (established under the auspices of Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), Council of Scientific and Industrial Research (CSIR), Department of Atomic Energy (DAE), Defence Research and Development Organisation (DRDO), Department of Biotechnology (DBT), Department of Science and Technology (DST), Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs).
10. Eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.
11. Slum area development.
12. Disaster management, including relief, rehabilitation and reconstruction activities.

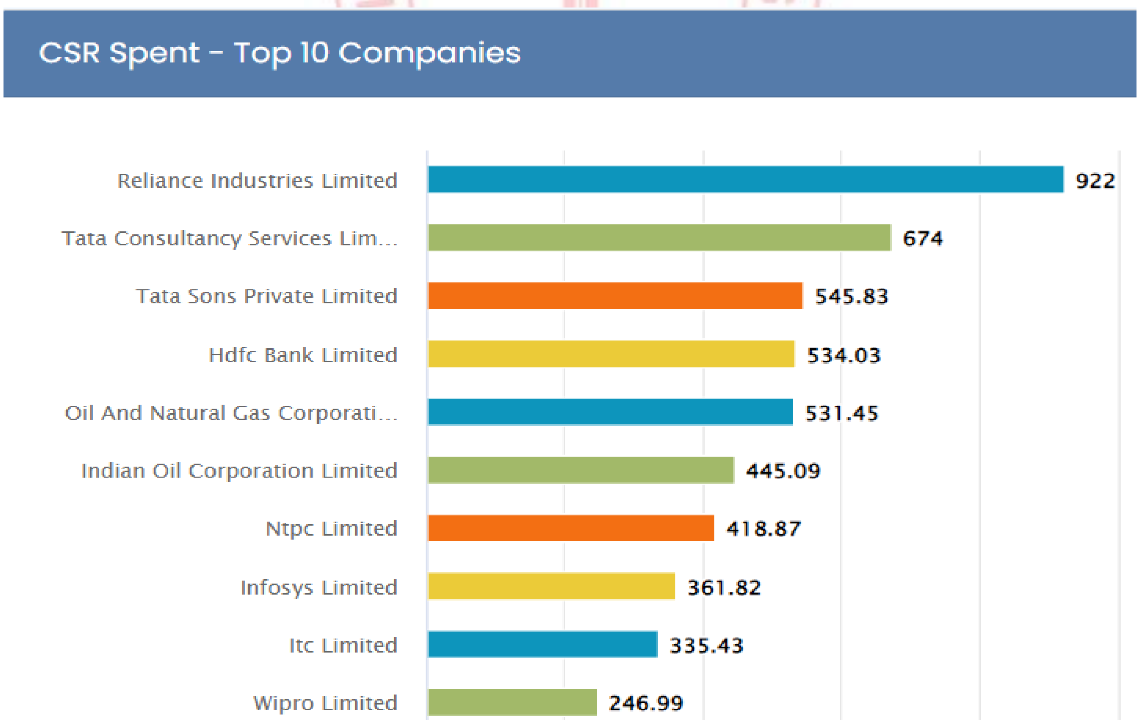
Here you find the summary of CSR expenditure made in India for 2020-21.

		Expediture	Companies
	Rs. Crores	Rs. Crores	
Health Care	6946.75		
Safe Drinking Water	197.05		
Sanitation	326.11		
Poverty, Eradicating Hunger, Malnutrition	1236.09		
		8706	9296
Slum Area Development		74.59	120
Swachh Bharat Kosh		159.68	191
Other Central Government Funds		1541.56	1288
Prime Minister'S National Relief Fund		1656.4	1780
Gender Equality	35.27		
Setting up Orphanage	15.43		
Socio-Economic Inequalities	119.18		
Women Empowerment	188.04		
Senior Citizens Welfare	55.13		
Setting up Homes and Hostels for Women	39.92		
		452.97	1947
Animal Welfare	187.7		
Conservation of Natural Resources	85.03		
Environmental Sustainability	981.78		
Agro Forestry	18.87		
		1,273.38	2572
Clean Ganga Fund		13.36	66
Education	6391.86		
Livelihood Enhancement Projects	796.14		
Special Education	202.05		
Vocational Skills	630.78		
		8,020.83	9315
Rural Development		1818.38	1535
2020-21		24865.46	17007
2019-20		24891.63	22818
2018-19		20172.07	25103

2018-19



2020-21



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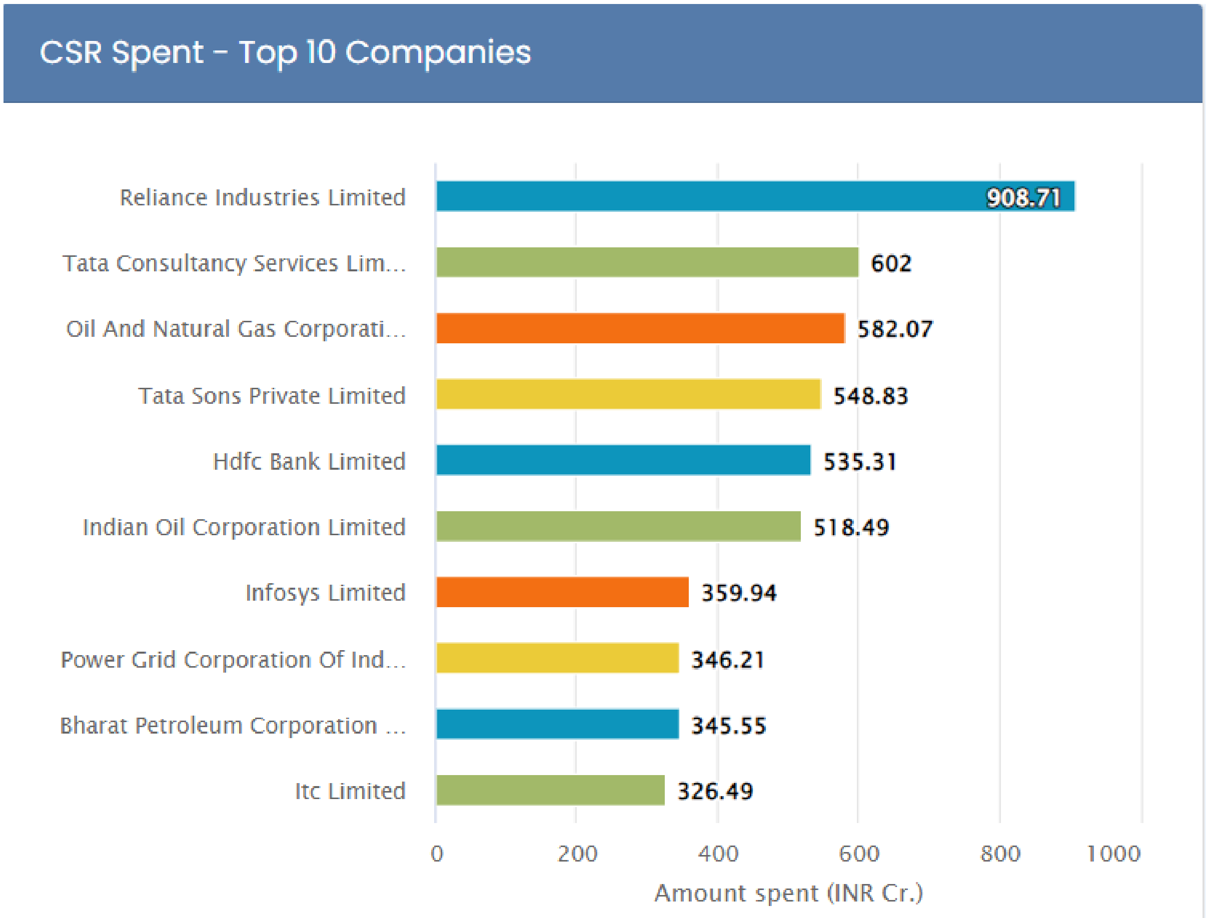

CSR Reporting

Rule 8 of the CSR Rules provides that the companies, upon which the CSR Rules are applicable shall be required to incorporate in its Board's report an annual report on CSR containing the following particulars:

A brief outline of the company's CSR Policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs;

The composition of the CSR Committee;

Average net profit of the company for last three financial years;

Prescribed CSR Expenditure (2% of the amount of the net profit for the last 3 financial years);

Details of CSR spent during the financial year;

In case the company has failed to spend the 2% of the average net profit of the last three financial year, reasons thereof.

A Responsibility Statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

In case of a foreign company, the balance sheet shall contain an annual report on CSR.

Every company having average CSR obligation of Rs. 10 Crore or more in the three immediately preceding financial years, shall undertake impact assessment, through an independent agency, of their CSR projects having outlays of Rs.1 Crore or more, and which have been completed not less than one year before undertaking the impact study.

The impact assessment reports need to be placed before the Board and shall be annexed to the annual report on CSR.

GROUP: 4, PART: 18

INDIRECT TAX

LAWS & PRACTICE - (ITP)

CMA Rana Ghosh
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Your Preparation Quick

Syllabus Structure

A Advanced Indirect Tax and Practice **80%**

B Tax Practice and Procedures **20%**

Learning Objectives:

Through the following Case Studies, students can refresh themselves about

- Taxable supply of an educational institute
- Exempted supply to educational institute
- Taxable receipts of an Insurance Company
- Treatment of various receipt of insurance company

Indirect Tax

Case Study - 1

Aspiratnt Pvt Ltd provider of various services for educational institute have the following transaction during the month of July 2022, which are exclusive of GST.

Sl No	Particulars	Rs
1	Rent received from a higher secondary school, for letting out a five storied building with compound	1600000
2	Let out of two floors of a multi storied building to a commercial coaching center	300000
3	Transportation services provided to the students of a secondary school	700000
4	Security services provided to pre nursery school	150000
5	House keeping and cleaning services to a college providing recognized (approved) graduation degree	625000
6	Supply of on line educational journals to approved vocational training center	125000

The Aapirant Pvt Ltd unable to determine what should be the taxable supply and raises the following questions -

(a) What is the total taxable value of supply

(b) Under which Notification Exemption if any can be available

(c) What is the total amount of exemption

(d) What amount f GST to e payable

Being a Cost Accountant in practice you are requested to answers the above questions considering rate of tax is 18% by selection the correct one from the alternative given.

(a) What is the total taxable value of supply

(i) Rs 2625000/-

(ii) Rs 2650000/-

(iii) Rs 2800000/-

(iv) Rs 3350000/-

(b) Under which Notification Exemption if any can be available

(i) Entry 65 of Exemption Notification No 12/2017 - CT (Rate)

(ii) Entry 65 of Exemption Notification No 12/2018 - CT (Rate)

(iii) Entry 66 of Exemption Notification No 12/2017 - CT (Rate)

(iv) Entry 66 of Exemption Notification No 12/2018 - CT (Rate)

(c) What is rate total amount of exemption

(i) Rs 125000/-

(ii) Rs 150000/-

(iii) Rs 700000/-

(iv) Rs 850000/-

(d) What amount of GST to e payable

(i) Rs 423000/-

(ii) Rs 477000/-

(iii) Rs 504000/-

(iv) Rs 603000/-

Workings -

Calculation of GST payable

Sl No	Particulars	Rs
1	Rent received from a higher secondary school, for letting out a five storied building with compound	1600000

2	Let out of two floors of a multi storied building to a commercial coaching center	300000
3	Transportation services provided to the students of a secondary school	Exempted
4	Security services provided to pre nursery school	Exempted
5	House keeping and cleaning services to a college providing recognized (approved) graduation degree	625000
6	Supply of on line educational journals to approved vocational training center	125000
	Total value of taxable supply	**2650000**

	Total Exempted Value	**Rs**
1	Transportation services provided to the students of a secondary school	700000
2	Security services provided to pre nursery school	150000
		850000

Case Study - 2

Superb Life Insurance Company Ltd has collected premium from its subscribers and intimate the month of August 2022, the collections from different category furnished as below -

Sl No	**Particulars**	**Rs**
(a)	Premium for only risk cover	4000000
(b)	Premium from new subscribers	6000000
(c)	Renewal Premium	9000000
(d)	Single premium on an annuity policy	12000000

Superb Life Insurance Company Ltd sort advise from a GST consultant regarding of each one of the above mentioned receipt. GST consultant suggested four alternative in each of the case. You are requested find the correct answer from the alternative given considering all amounts received are exclusive of tax.

(a) What value to be taken for only risk cover

(i) Rs 1000000/-
(ii) Rs 2000000/-
(iii) Rs 3000000/-
(iv) Rs 4000000/-

(b) What will taxable value for premium received for new subscription

(i) Rs 750000/-

(ii) Rs 1500000/-

(iii) Rs 3000000/-

(iv) Rs 4500000/-

(c) On what basis Renewal Premium to be taken for tax purpose

(i) 12.50% of the renewal premium

(ii) 25% of the renewal premium

(iii) 50% of the renewal premium

(iv) 100% of the renewal premium

(d) What will be the taxable value for single premium received on annuity policy

(i) Rs 12000000/-

(ii) Rs 6000000/-

(iii) Rs 3000000/-

(iv) Rs 1200000/-

Workings -

As per the Rule 32(4) of CGST Rule, 2017 the value of the service provided by the Superb Life Insurance Company Ltd will be computed as under –

Sl No	Particulars	Rs
(a)	Premium for only risk cover (Note 1)	4000000
(b)	Premium from new subscribers (Note - 2)	1500000
(c)	Renewal Premium (Note -3)	1125000
(d)	Single premium on an annuity policy (Note - 4)	1200000
	Total value of supply	**7825000**

Notes

1 In this case entire premium paid by the policy holders is only towards the risk cover in e Life Insurance so 100% of the premium paid to be taken

2 In case of premium received from new subscriber 25% of the total premium received to taken in first year i.e. 25% of Rs 6000000/- = Rs 1500000/-

3 be In case of renewal premium received from subscriber 12.50% of the total premium received to be taken from subsequent year i.e. 12.50% of Rs 9000000/- = Rs 1125000/-

4 In case of single premium received on an annuity policy 10% of the single premium charged to be taken i.e. 10% 0f Rs 12000000/- = Rs 1200000/-.

Answers - Case Study 1

- **(a)** **(ii)**
- **(b)** **(iii)**
- **(c)** **(iv)**
- **(d)** **(ii)**

Answers - Case Study 2

- **(a)** **(iv)**
- **(b)** **(ii)**
- **(c)** **(i)**
- **(d)** **(iv)**

GROUP: 4, PART: 19,

COST & MANAGEMENT AUDIT – (CMAD)

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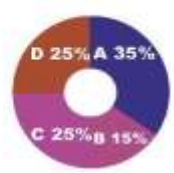
Your Preparation Quick



Syllabus Structure

A Cost Audit 35%
B Management Audit 15%
C Internal Audit, Operational Audit and other related issues 25%
D Case Study on Performance Analysis 25%

Learning Objectives:

- To verify the correctness of the cost accounting records.
- To find out whether the principles of cost accountancy have been fully and correctly applied in maintaining cost records.
- To search for the deficiencies in the cost record system of the company.
- To attain efficiency in cost accounting systems and procedures.

Cost & Management Audit

Short Notes: -

1. **What are the provisions under the Companies act, 2013 on appointment of Cost Auditor?**

Answer-

Every company falls under the purview of the sec 148, of the companies act, 2013 read with CCRA, 2014 shall get its cost records audited by appointing cost auditor within 180 days of the commencement of every financial year. The cost auditor is to be appointed by the Board of Directors on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The company shall inform the concerned cost auditor of his or its appointment and the cost auditor proposed to be appointed is required to give a letter of consent with self-certification to the Board of Directors that the individual or the firm is eligible for appointment and is not disqualified under the Act, the Cost and Works Accountants Act, 1959 (23 of 1959) and the rules or regulations made thereunder for appointment.

Further the company need to file a notice of appointment with the Central Government within a period of 30 days of the board meeting in which such appointment is made or within a period of 180 (one hundred and eighty) days of the commencement of the financial whichever is earlier, through electronic mode in the form CRA 2 along with the applicable fee as specified in the company's regulation.

As per sub-rule 3 of Rule 6 of CCRA, 2014, every cost auditor appointed as such, shall continue in such capacity till the expiry of 180 (one hundred and eighty) days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.

Provided that the cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing.

As per sub-rule 3A any casual vacancy in the office of a cost auditor, whether due to resignation, death, or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

2. What are the responsibilities of Cost Auditor appointed under the Act.?

Answer-

The responsibility of a Cost Auditor appointed under the Companies Act, 2013, is primarily to audit the cost accounting records of the company and report on their accuracy and reliability.

The responsibilities of a Cost Auditor under the Act are enumerated as follows:

i.) Verify the accuracy and completeness of the cost accounting records maintained by the company in terms of CCRA Rules, 2014, and ensure that the cost accounting records are in compliant with the applicable Cost Accounting Standards and Generally Accepted Cost Accounting Principles (GACAP).

ii.) Verify the allocation of costs to products, services, or activities as per the company's cost accounting policy.

iii.) Verify that all the information, statements in the annexure to this cost audit report gives a true and fair view of the cost of production of product, cost of sales, margin and other information relating to product under audit.

iv.) Evaluate the effectiveness of the company's internal audit system as well as internal control system in respect of cost accounting records.

v.) Report on any instances of non-compliance with the provisions of the Companies Act, 2013 about Companies (Cost Records and Audit) Rules, 2014 or any other applicable laws and regulations and recommend corrective action to be taken.

vi.) To submit a cost audit report in the prescribed format within the specified time. .

Overall, the Cost Auditor is responsible for ensuring that the company's cost accounting records are accurate, reliable, and that the cost management practices adopted by the company are effective in achieving the company's strategic objectives.

3. What are the penalties for Cost Auditor for violation of provisions regarding Companies act, 2013?

Answer-

The Companies Act, 2013 and the Companies (Cost Records and Audit) Rules, 2014 provide for penalties in case of non-compliance by the Cost Auditor. The penalties are as follows:

<u>Fine:</u>
According to Section 143(12) of the Companies Act 2013, if an auditor of a company, during the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall

immediately report the matter to the Central Government within such time and in such manner as may be prescribed. According to Sub-Section 15 of Section 143 if any auditor in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

Sub-Section 14 of Section 143 makes it clear that the provisions of this section shall mutatis mutandis apply to the cost accountant in practice conducting cost audit under section 148.

Imprisonment & Fine:

i.) As per sub- section 8 (b) of Section 148 of the companies act, 2013 the cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147 of the Act, as follows:

- Section 147 (2) defines If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees.

- Under sub-section (3) Where an auditor has been convicted under sub-section (2), he shall be liable to—

(a) Refund the remuneration received by him to the company; and
(b) Pay for damages to the company, statutory bodies, or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.

ii.) Under Section 448 of the companies act, 2013, it is mentioned that if in any return, report, certificate, financial statement, prospectus, statement or other document required by, or for, the purposes of any of the provisions of this Act or the rules made thereunder, any person makes a statement,—

(a) Which is false in any material particulars, knowing it to be false; or
(b) Which omits any material fact, knowing it to be material,

he shall be liable under section 447 which implies imprisonment not be less than six months but which may extend to ten years and shall also be liable to fine.

It is therefore, essential for the Cost Auditor to fully comply with all the relevant provisions and rules to avoid any legal or reputational risks.

GROUP: 4, PART: 20,

STRATEGIC

PERFORMANCE MANAGEMENT AND BUSINESS VALUATION – (SPBV)

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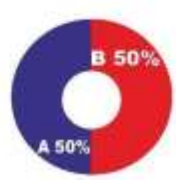
Your Preparation Quick



Syllabus Structure
A Strategic Performance Management **50%**
B Business Valuation **50%**

Learning Objectives:

After studying this section on Strategic Performance Management and Business Valuation, you will be able to:

- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Valuation of Bonds

A bond is a long-term debt instrument used by the government/government agency (ies) and business enterprises to raise a large sum of money.

Bond Valuation Terminology

- **Coupon rate** is the specified interest rate available on a security.
- **Maturity period** is the number of years after which the par/ specified value is payable to the bondholders
- **Yield to maturity (YTM)** is the rate of return an investor earns on a bond held till maturity.
- **Par Value** is the value stated on the face of the bond. It represents the amount the firm borrows and promises to repay at the time of maturity.

The value of a bond is equal to the present value of the cash flows expected from it.
Hence determining the value of a bond requires:
(a) An estimate of expected cash flows.
(b) An estimate of the required return.
The cash flows for Bond are typically fixed:
(a) Interest payments, for example, every six months equal to one-half of: (Coupon rate × Face value).
(b) The payment of principal (Face or par value) at maturity.

Assumptions for Bond Valuation:
(a) The coupon interest rate is fixed for the term of the bond.
(b) The coupon payments are made annually and the next coupon payment is receivable exactly a year from now.
(c) The bond will be redeemed at par on maturity.

Bond Value's with Annual Interest

$$P = \sum_{t=1}^{n} \frac{C}{(1+r)^t} + \frac{M}{(1+r)^n}$$

where P is the value (in rupees), n is the number of years to maturity, C is the annual coupon payment (in rupees), r is the periodic required return, M is the maturity value, and t is the time when the payment is received.

Bond Values with Semi-annual Interest

$$P = \sum_{t=1}^{2n} \frac{C/2}{(1+r/2)^t} + \frac{M}{(1+r/2)^{2n}}$$

Multiple Choice Questions (MCQs)

1. **The value of a bond/debenture is**
   (a) present value of contractual payments it receives till maturity
   (b) present value of interest payments it receives
   (c) present value of its redemption amount/value
   (d) none of these.

2. **A ₹100 par value bond, bearing a coupon rate of 9 percent will mature after 4 years. What is the value of the bond, if the discount rate is 13 percent? PVIFA (13%, 4 years) = 2.974; PVIF (13%, 4 years) = 0.613**
   (a) ₹ 78.24
   (b) ₹ 80.48
   (c) ₹ 88.07
   (d) ₹ 92.32

3. **A ₹100 par value bond bears a coupon rate of 8 percent and matures after 10 years. Interest is payable semi-annually. Compute the value of the bond if the required rate of return is 12 percent. PVIFA (6%, 20 years) = 11.470; PVIF (6%, 20 years) = 0.312**
   (a) ₹ 99.45
   (b) ₹100.02
   (c) ₹ 105.17
   (d) ₹ 106.58
   (e) ₹ 110.60

4. **When the required rate of return is greater than coupon rate, the bond will be valued at**
   (a) discount
   (b) premium
   (c) par value
   (d) none of these.

5. **A bond can be issued at premium if**
   (a) Coupon rate > Required returns
   (b) Coupon rate < Required returns
   (c) Coupon rate = Required returns
   (d) none of these

Answer Hints:

Question	1	2	3	4	5
Answer	a	c	b	a	a

Case 1

The following information is provided relating to the acquiring company E Ltd., and the target company H Ltd.

Particulars	E Ltd.	H Ltd.
Number of shares (face value. ₹10 each)	10.00 lakh	**7.5 lakh**
Market capitalisation (₹)	500.00 lakh	**750.00 lakh**
P/E ratio (times)	10.00	**5.00**
Reserves and surplus (₹)	300.00 lakh	**165.00 lakh**
Promoter's holding (number of shares)	**4.75 lakh**	**5.00 lakh**

The Board of Directors of both the companies have decided to give a fair deal to the shareholders and accordingly for swap ratio the weights are decided as 40 per cent, 25 per cent and 35 per cent respectively for earning, book value and market price of share of each company.

(i) Calculate the swap ratio and also calculate promoter's holding percentage after acquisition.

(ii) What is the EPS of E Ltd. after acquisition of H Ltd.?

(iii) What is expected market price per share and market capitalisation of E Ltd. after acquisition, assuming P/E ratio of Firm E Ltd. remains unchanged and

(iv) Calculate free float market capitalisation of the merged firm.

Answer:

(i) (a) Computation of EPS, book value per share and MPS

Particulars	E Ltd.	H Ltd.
1. Market capitalisation (₹)	500.00 lakh	**750.00 lakh**
2. Number of shares (face value. ₹10 each)	10.00 lakh	**7.5 lakh**
3. Market price per share (1/2) (₹)	50	**100**
4. P/E ratio (times)	10.00	**5.00**
5. Earnings per share (3/4) (₹)	5	**20**
6. Total earnings after taxes (2× 5) (₹)	50 lakh	**150 lakh**
7. Equity share capital (2× ₹10)	100 lakh	**75 lakh**
8. Reserves and surplus (₹)	300 lakh	**165 lakh**
9. Equity funds (7 + 8) (₹)	400 lakh	**240 lakh**
10. Book value per share, BPS (9/2) (₹)	**40**	**32**

(b) Determination of swap ratio

Particulars	Ratio × weight = Total
EPS (Rs 20:5)	4:1@ × 0.40 = 1.6
Book value (Rs 32:40)	0.8:1 0.25 = 0.2
Market price per share (Rs 100:50)	2:1 0.35 = 0.7
Total	2.5

@ Since EPS is 4 times of H Ltd, 4 shares are required to be issued in E Ltd. for every one share of H Ltd; hence, the ratio is 4:1. Similarly, the other ratios are computed.

With a swap ratio is 2.5:1, for every 1 share of H Ltd, 2.5 shares are to be issued in E Ltd. Thus, the total number of shares to be issued to H Ltd. is 7.5 lakh 2.5 = 18.75 lakh shares.

Total number of shares in E Ltd. (after acquisition) = (10 lakh existing shares + 18.75 lakh shares issued) = 28.75 lakh shares.

The promoter's holding (%) after acquisition = number of shares held by promoters, 4.75 lakh + (2.5 5.00 lakh = 12.5 lakh) = 17.25 lakh/Total number of shares, 28.75 lakh = 60 per cent.

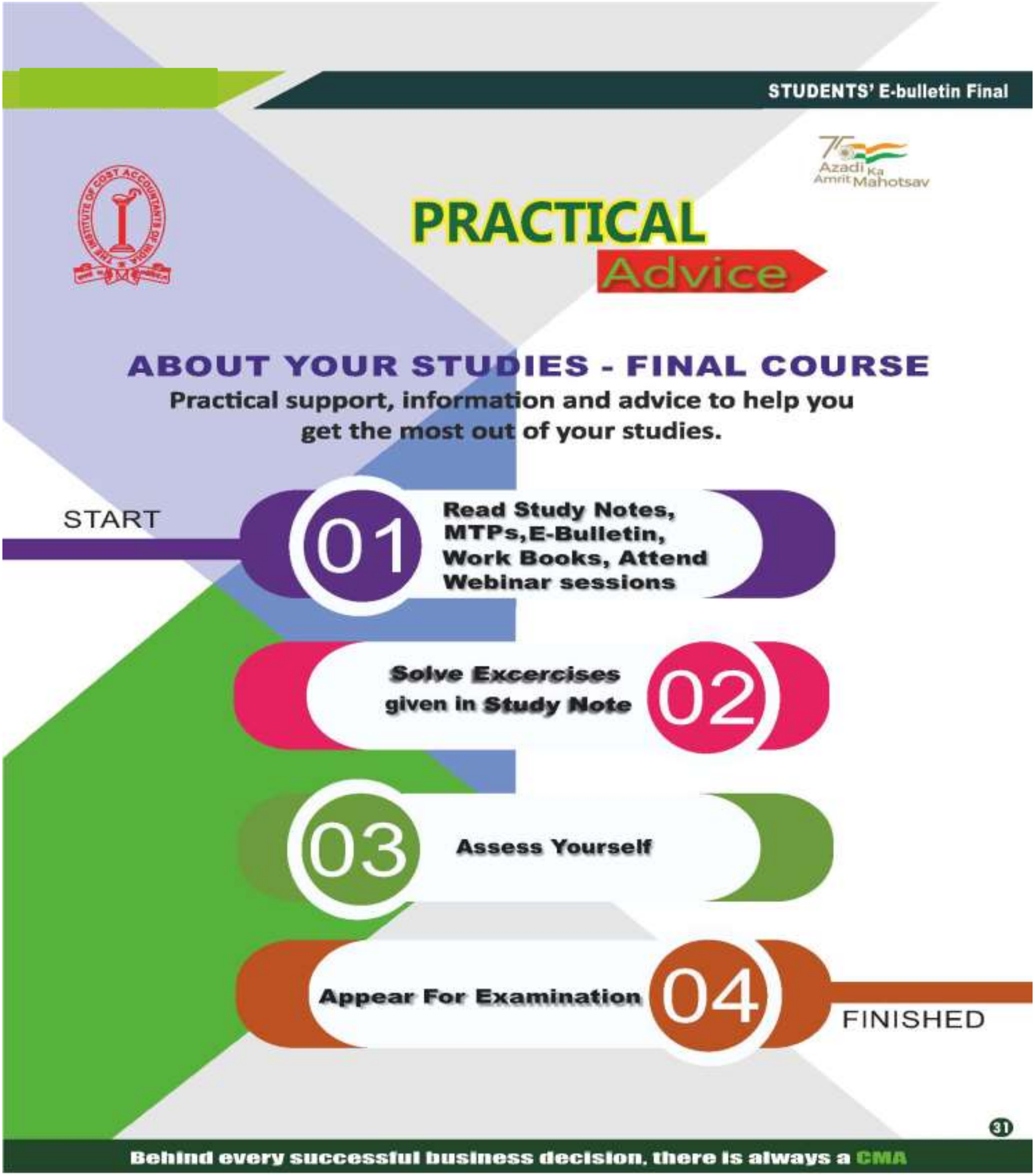
(ii) EPS after acquisition = Total earnings after acquisition/ Total number of shares after acquisition = ₹50 lakh + ₹150 lakh = ₹ 200 lakh/28.75 lakh = ₹ 6.956

(iii) Expected MPS = ₹6.956 10 times = ₹69.56

(iv) Free float market capitalisation (merged firm):

Total number of shares	**28.75 lakh**
Less shares held by promoters	17.25 lakh
Shares in the market	11.50 lakh
Multiplied by MPS	₹ 69.56
Free float market capitalisation	₹799.94 lakh

Practical Advice



Submissions

SUBMISSIONS

150 YEARS OF CELEBRATING THE MAHATMA

Azadi Ka Amrit Mahotsav

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!

We have noted queries and your requests will definitely be carried out. Further, requesting you to go through the current edition of the bulletin. All the areas will be covered gradually. Expecting your responses further to serve you better as we believe that there is no end of excellence! One of the mails received is acknowledged below.

Please put your opinions so that we can make your e-bulletin everything that you want it to be.

Send your Feedback to:
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Message from Directorate of Studies

Dear Students,

Greetings from the D.O.S.!!!

We from the Directorate of Studies understand your expectations from us and accordingly we are trying to deliver some meaningful tips through various publications in soft versions like-E-bulletins, Mock Test Papers (MTPs), Model Question Papers (MQPs) and we also have conducted Tutorial Webinar Sessions for the benefit of the students. Supplementary and Amendments are also uploaded from time to time to keep the students updated about the recent changes made in the papers; wherever applicable.

- Certain general guidelines are listed below and which will help you in preparing for the examinations:
- Conceptual understanding and overall understanding of the subjects should be clear,
- Students are advised to go through the study material provided by the Institute meticulously,
- Students should know and learn the basic understandings of the subjects with focus on core concepts,
- Students are expected to give to the point answer which is a pre-requisite for any professional examination,
- To strengthen the answers, students are advised to answer precisely and in the structured manner,
- Proper time management is also important while answering.

Please refer the link mentioned below:
https://icmai.in/studentswebsite/index.php

GOOD LUCK

Be prepared and be successful


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Few Snapshots

CMA Ashwin G. Dalwadi has been elected as the President and CMA Bibhuti Bhusan Nayak as the Vice President, ICMAI for the year 2023-24.

CMA Ashwin G. Dalwadi has been elected as the President and CMA Bibhuti Bhusan Nayak as the Vice President, ICMAI for the year 2023-24.

CMA Navneet Kumar Jain, Council Member, ICMAI, CMA Manish Kandpal, Secretary, NIRC-ICMAI and CMA Jeewan Chandra met with Hon'ble Chief Minister of Uttarakhand, Shri Pushkar Singh Dhami and submitted representations.

CMA Ashwin G. Dalwadi, President, ICMAI along with CMA Manoj Kumar Anand, Council Member, ICMAI had a meeting with CS Manish Gupta, President, ICSI and CS Asish Mohan, Secretary, ICSI at CMA Bhawan, New Delhi on 25th July, 2023.

CMA Ashwin G. Dalwadi, President, ICMAI along with CMA Manoj Kumar Anand, Council Member, ICMAI called on Shri Manoj Govil, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 26th July, 2023.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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