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NATIONAL COST CONVENTION
60th
2022

150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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150 YEARS OF CELEBRATING THE MAHATMA

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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KNOWLEDGE Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

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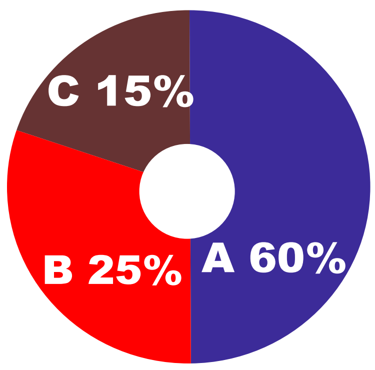
Your Preparation Quick Takes



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.

Bank vs. corporate interface

Banking operation is integral part of any corporate body, particularly, a company. There are various provisions under the Companies Act on taking loans, both long term and short term, creating charges, securitization etc. Therefore, companies should know the requirement of banks and banks should also know the procedures under the Companies Act which have effect on the bank.

A bank while dealing with a company has to consider the following:

1. Certificate of incorporation: to check and keep a copy; any change in name should be noted and the legal implication to be understood.

2. Certificate of commencement of business: now required for a class of companies: should also be checked and copies to be kept.

3. Memorandum of association & articles of association

The activities of a company are required to be conducted within the ambit of these documents. a lending banker should examine these documents carefully to know objects and purposes of the company, the borrowing powers of the company, the powers of directors, if any act falls outside the scope of the objects, then it will be ultra vires on the part of the company which cannot be ratified by the company / its shareholders.

4. Resolution of the Board of Directors

The request for grant of loan facilities within the ceiling of the paid up capital and reserves are required to be duly authorized by a supporting resolution passed by the company. the resolution, inter alia, to give details about the facility sought, security offered, persons nominated to execute of the documents and name of the persons who are authorized to operate together with the limits of operation, if any. Also, for opening and closing of accounts, such resolution is required.

5. Other precautions to be observed

I. duly authorized board resolution
II. cheques drawn not to be credited in the personal account of the director.
III. all charges created to be registered with the Registrar of companies.
IV. a search to be made in the office of the Registrar of companies.
V. no loan to be granted against its own shares.
VI. the powers of the directors to operate the account to cease the moment the notice of winding up of the company is received.

6. Loan documentation

- documentation means obtaining and execution of documents in proper terms and in accordance with the requirements of law.
- correct documentation is necessary from the point of view of safety of an advance.
- documents should be correctly drafted, adequately stamped, properly executed and necessary legal formalities to be complied with.

7.Stamping of documents

- stamping of the documents the Indian Stamp Act, 1899, will be followed. documents which are unstamped, insufficiently stamped or bear wrong type of stamp will be inadmissible in evidence.

8.Creation of charge in case of secured loan

- when a bank advances any amount to the company and the customer agrees for furnishing security, the assets of the company are charged / mortgaged / hypothecated to the concerned bank.
- there can be two types of charges on the assets of the company – fixed charge & floating charge.
- fixed charge takes place when any particular asset or fixed asset of the company is charged.
- floating charge takes place when any fluctuating asset of the company is charged. fluctuating asset in this context means any assets whose value is not fixed, such as, debtors. in this case the charge hovers over the property charged. on crystallization a floating charge becomes a fixed charge.
- whenever a charge is created the particulars of such creation is intimated to the registrar of the companies. such intimation is given also for the modification of the charge and for satisfaction of charge. all these particulars are entered in the register of charge.
- therefore, when the assets of the company are charged to the bank, then bank inspects the register of charges kept with the registrar in order to verify whether the assets charged are free from any encumbrances or have been previously charged.

9. Obligation of the company

Companies should always give the required documents to bank whenever they are dealing with the any bank, even when banks are not specifically asking for such documents.

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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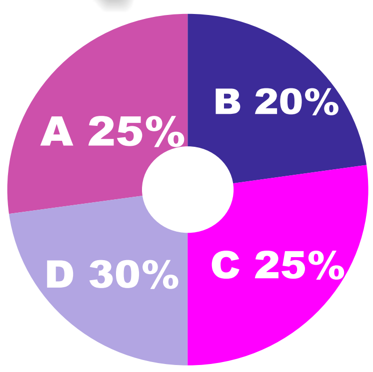
Your Preparation Quick Takes



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

Section C & Study Note 8: Security Analysis and Portfolio Management

A. Economic Analysis

The first step in any fundamental analysis exercise is 'Economic Analysis'. It helps to form an understanding of economic forces that may have likely impact on the stock prices. It helps forecasting the changes in various economic variables in the process of assessing their impact on stock prices.

The economic environment varies as the economy goes through stages of prosperity. Different stages of economic prosperity are also referred to as the business cycle. It simply means how economic output and growth moves from period one to next periods. If the initial period is a period of rapid growth, it peaks out at some point of time and a recession sets in subsequently. After some point of slow growth, the economy bottoms out but by then, new demand accrues and fresh activities emerge. Along this business cycle stages various economic forces act differently and hence stock prices get affected.

Economic analysis, as a part of fundamental analysis try to identify the behaviour of various economic forces across different stages of business cycle and assess their impact on stock prices.

The major factors that affect the stock prices are as follows:

1. **Gross Domestic Product:** Economic activity is measured by aggregate indicators such as the level of production and national output. The most widely and commonly quoted measure is Gross Domestic Product (GDP), which is the total value of all final good and services newly produced within the country's boundaries with domestic factors of production. In a growing economy, GDP is high and companies post higher profits. Whereas during recessions, profits fall leading to unemployment, lower spending etc. A steadily growing GDP is good for business.
2. **Inflation:** Inflation can have an important impact on investors' behavior. Inflation in general denotes a general change in the price levels and measured in terms of index. Two commonly used indexes are Consumer price index (CPI) and the Wholesale price index (WPI). Inflation in general is not bad as long as it comes along with the growth of the economy. When the economy is expanding fast, it is natural that money supply also increases along with disposable personal income of individuals and thus cause an increase in prices. Under this condition, stock market is favorably affected on account of increase in profitability of firms. Nevertheless, inflation affects interest rates and hence adversely affects the stock prices. An increase in rate of inflation will cause an increase in rate of interest of all kinds of securities. An increase in interest rate affects the value of stock as well as other securities in two ways. Firstly, it affects' adversely the profitability of firms. When inflation rises, cost of raw materials increases. Companies cannot keep on raising their prices as it will affect demand. As a result, high cost of production reduces profit margins. Secondly, it also increases the expected rate of return of investors and directly affects the discount rate. An increase in discount rate has an adverse impact on value of securities of different types. Such an adverse impact may ultimately lead to a recession and hence governments and central banks are concerned with inflation.
3. **Interest Rates:** The level of interest rates is perhaps the most important macroeconomic factor to consider in one's invest analysis. Forecasts of interest rates directly affect the forecast of returns in the fixed income market. Suppose you expect the interest rates to decline in the near future. Under this situation, you will shy away from investing in long-term debt instruments. When interest rates are high, businesses are forced to borrow money at high rates. This increases the cost of capital reducing company's profitability. When companies post less profits, its share prices are directly impacted. When interest rates are low, businesses borrow money cheaply and cost of capital reduces. This drives demand and increases company's profits. Investors are eager to invest in companies with high profitability. This increases its share prices.
4. **Government Policy:** The government has two broad classes of macroeconomic tools - those that affect the demand for goods and services and those that affect their supply. For most of postwar period, demand-side policy has been of primary interest. The focus has been on government spending, tax levels, and monetary policy. Since 1980s, however, increasing attention has been given on supply-side economics. Broadly interpreted, supply-side concerns have to do with enhancing the productive capacity of the economy, rather than increasing the demand for the goods and services the economy can produce. Such polices may have little impact in the short run but they produce sustainable long-run growth in the economy. Two most important demand side policies are fiscal policy and monetary policy.
   a. **Fiscal Policy:** Fiscal policy refers to the government's spending and tax action and is part of demand-side management. It is the most direct way to influence the economy. For instance, when the government increases spending, it creates more demand in the economy and similarly, when the government reduces spending, it causes slow-down in the economy. The government can also increase or decrease the demand for the products by reducing or increasing the tax rates. Changes in tax rates directly increase or decrease the disposable income of the public.
   b. **Monetary Policy:** Monetary policy, in the form of changing CRR and SLR and bank rate, is also demand-side management of economy. The Central Bank changes the money supply through variety of polices and thus influence the economy. One of the ways

for reducing the inflation is to slow down the growth of money supply by raising the policy rates. Similarly, the Central Bank by reducing the money supply through reducing the key policy rates can slow down the growth and prevent the economy to create over capacity in several industries. However, monetary policy affects the economy in more roundabout way than fiscal policy.

5. **Economic and Political Stability:** A stable political environment is important for businesses. Companies can work in the long term only when there is stable political climate in the country. For example: Investors prefer investing in companies based in USA, UK than politically unstable countries like Syria or Iran.

- **Economic Forecasting Methods**

The most effective economic forecasting techniques include the following:

1. Indicator Approach

In this approach, various types of indicators are studied to find out how the economy is likely to perform in the future. For meaningful interpretations, these indicators are classified into leading, roughly coincidental, and lagging indicators.

Leading Indicators: As the name suggests, these are indicators that lead the economic activity in terms of their outcome. That is, these are those time series data of the variables that reach their high points as well as their low points in advance of the economic activity. For example, Index of S&P stock prices, money supply, change in sensitive material prices etc.

Roughly Coincidental Indicators: These are the indicators that reach their peaks and the troughs at approximately the same time as the economy. For example, index of industrial production and manufacturing and trade sales.

Lagging. Indicators: These are time series data of variables that lag behind in their consequence vis-a-vis the economy. That is, these reach their turning points after economy has already reached its own. For example, average duration of unemployment, ratio of manufacturing and trade inventories to sales

Indicator approach is quite useful in suggesting the direction of a change in the aggregate economic activity. However, it tells nothing about the magnitude of change. In developed countries, data relating to various indicators are published at short intervals. For example, U.S. Department of Commerce publishes data regarding various indicators.

One should be quite careful in using the data on indicators. In any case, there are practical difficulties in operationalizing it as data collection is not done well in advance. There is always a delay in it, with the result that interpretation even if correctly performed cannot be fruitfully utilized. Further, problems with regards to their interpretation as well exits.

2. Diffusion Indices

A diffusion index (as the name implies) is a measure of how widespread (diffused) a phenomenon is. We can set up a diffusion index for leading indicators by counting the number of indicators that rise during a particular period and expressing it as a proportion of the total number of lead indicators and more desirably in a percentage form. If five out of, say, ten leading indicators rise during a particular month, the diffusion index for that month will be 50 percent. The user must interpret the diffusion index relative to the levels of the index in the past. A rise from 50% to 70% in the index is a stronger confirmation of a period of economic advance.

3. Econometric Model Building Approach

As far as short-term economic forecasting is concerned, an approach based on econometric methods has the advantage of providing a magnitude and direction to the dependent variable, say GNP. However, the user must understand that a precise estimate of the dependent variable (forecast value for GNP) obtained from the econometric model need not be an accurate one, because accuracy of the forecast will ultimately depend upon the quality of data input, the validity of the assumptions underlying the model, and above all upon the model builder's understanding of the underlying economic theory.

4. GNP Model Building Approach

The GNP model building approach forecasts GNP in the short run by estimating the magnitudes of the various components constituting GNP. If GNP is defined as C + I + G + X-M where C, I, G, X and M stand for their standard definitions, then forecast for GNP under this approach is determined by estimating the likely values of C, I, G, X and M. To estimate these components, the forecaster relies extensively on the budget estimates of the Central and State Governments, the socio-economic surveys carried out by the Government and private agencies, and the field data collected for this purpose.

Once the forecaster estimates these major components, he adds them together to come up with his estimate of the GNP. He tests the forecast for internal consistency because of the interrelatedness of the GNP accounts. For example, a given level of consumption implies a certain level of savings, which affects business investments which in turn affects production activities, and thus affects income and savings.

The major advantage of this approach is its versatility. Since the GNP forecast is adjusted for all anticipated changes and tested for internal consistency, it is likely to be a reliable one. But the approach is data demanding and calls for a vast deal of judgment and ingenuity.

The above method of forecast try to estimate the future changes in various economic variables and thereby assess their likely impact on the stock prices for the purpose of investment analysis.

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GROUP: iii, PAPER: 15

STRATEGIC

COST MANAGEMENT-DECISION MAKING (SCMD)

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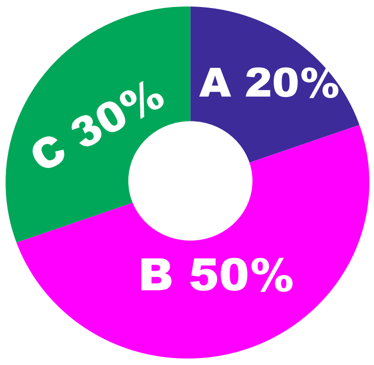
Your Preparation Quick Takes



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:

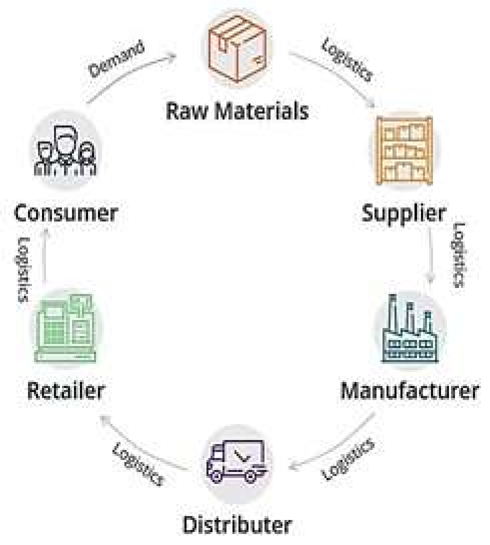
The Strategic cost management framework provides a clear plan of attack for addressing costs and decisions that affect them. It helps to get answers on:

- 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 modelling capability?

Supply Chains & Cost Reduction

Supply Chains

Supply chains include all steps involved in producing and delivering a product or service, from the point at which raw materials are sourced to the point at which the product or service is delivered to the end-users.



In case of a Generic Supply Chain, raw materials are sourced and extracted at the beginning; a logistics provider then transports the raw materials to a manufacturer; manufacturer converts the raw material into a consumable product; another logistics provider moves the finished product to a distributer and therefrom to a retailer; and ultimately, the consumer purchases the product from the retailer. Consumer's recurring demand drives more raw materials to be extracted, and the cycle continues.

In case of E-commerce, companies operate websites that sell various products; orders are processed through technology; the payment processor takes care of the transaction and a whole new supply chain is created. The warehouse receives the order; a shipping company picks up the product and delivers the package the customer's door, the customer receives the package.

May it be generic or may it be e-commerce, every activity (link) of supply chain adds value as also incurs costs. As such prudence warrants cost benefit evaluation for each and every activity of supply chain whereby costs can be reduced and value increased. The management of inventory, relationships with suppliers, and improving production processes are a few methods supply chain managers can employ to reduce costs further. Profits increase for firms when prices are reduced throughout the supply chain.

Here go two case studies to familiarise as to how enterprises operating logistics strategize cost reduction.

Case Study 1: Rivigo's Relay Trucking

Rivigo Services Pvt Ltd is a technology-based logistics start-up that has introduced the concept of relay trucking. The company was founded by Deepak Garg and Gazal Kalra in the year 2014. Headquartered in Gurgaon, Haryana, the company specialises in cargo service, express cargo, part truck load, full truck load, cold chain - logistics service, third party logistics (3pl), supply chain-logistics, freight, transportation, cargo, and shipment. The company's revenues are stated to be over one thousand crores of rupees.

The company visualises that Indian economy is faced with its biggest risk - a chronic shortage of truck drivers. This supply demand gap has put pressure on the logistics companies. Every transporter or logistics company cites recruitment and retention of truck drivers as the biggest growth inhibitor for them. The company carves out the solution to curb the unprecedented shortage of truck drivers in India by strategizing truck driving a regular day job using Relay Trucking.

Relay Trucking is an operating model innovation where drivers change over after every few hundred kilometres of driving through a network of change-over stops called "relay pit-stops" and then get rostered back to their home base to return to their families every single day. Relay trucking is enabled by a strong interplay of technology, data, culture and operational excellence. At the same time, due emphasis is laid on the need to eliminate unscheduled stoppages and inefficiencies in driving as opposed to speeding to meet turnaround time.

The driver relay model ensures 50-70% reduction in transit times. These rapid transit times enable company's customers to reimagine their supply chain by cutting-down inventory costs, reducing working capital, lowering storage space, preventing stock-outs, and improving speed to market. Further, the company has optimized routes and rely heavily on data analytics for resource allocation. This, in turn, gives it two to three times higher asset utilization making its systems more efficient and pilots happier at the same time.

Case Study 2: Delhivery's Eight Ways to reducing Shipping Costs

Delhivery is one of the largest and fastest growing fully-integrated logistic player in India. The company aims to build the operating system for commerce, through a combination of world-class infrastructure, logistics operations of the highest quality and cutting-edge engineering and technology capabilities. Given below are the eight ways put forward by Delhivery for reducing the operational costs of a Shipping Business.

i. **Watch out for Shipping Distance:** Though no distance is too long for an efficient shipping logistics company, still more miles cost more money. As a thumb rule, try not to cover the extra miles, that is, addresses too far away from the warehouse at the initial stage of your business. Though it might prevent you from expanding your target audience, you can use the time and cost you saved to deliver the products to existing customers quicker, thereby increasing customer satisfaction. You can even charge more if you deliver quicker. For example, a study shows that 41% of customers are willing to pay more for same-day delivery. One way to reduce costs due to distance and offer same/next day delivery is to store closer to the customer across regionally distributed warehouses across the country.

ii. **Combine the Shipments:** You can reduce the operational cost of shipping by combining the packages to a single destination. If two products have a delivery gap of just 1 or 2 days, try shipping both the products by the earlier shipping date of the two.

iii. **Secure the Package:** Most shipping carriers are careful while handling your products. But the journey is always not smooth for your packages. They might end up travelling in multiple modes of transportation, handled by hundreds of people. There are high chances that your package might get lost or damaged in transit. You will end up sending the product once again to the buyer, thus increasing your operational cost further. To avoid this, try packing the products well with bubble wraps and fillers. Also, get the packages insured. It's a tiny amount to pay, considering the losses you will face due to damages.

iv. **Save on Boxes:** If you're running a business dealing with products like clothing, shipping orders in a polybag would be cost-effective compared to boxes. As the final dimensions will be smaller, you will save money, taking up less room on a delivery truck, and it requires fewer packing supplies like tape and bubble wrap.

v. **Establish Long-Term Partnership with a Shipping and Logistic Company:** A long-term relationship with your shipping vendors helps in cutting down costs. Try to strike a long-term deal at a discount. Most vendors value the loyalty of customers over short-term gains. They will happily sign contracts for a year or two and offer you a good discount if you agree to give them sufficient orders in a year.

vi. **Partner with a Shipping Logistics Expert:** Shipping and logistics management in a business isn't easy. There are multiple costs involved, starting from labourers to packing supplies. When you do not know the ins and outs of the shipping business, you will spend unnecessarily on many overheads. This is where partnering with a shipping logistics company can help. Most shipping logistics companies take care of your complete shipping operations without you having to worry about leaking money in them. You can instead focus on more mission-critical operations in your business.

vii. **Choose the Plan that works Best for You:** Do you ship products that are often oversized? Are your shipping costs skyrocketing due to heavy packages? Talk to your logistics partner about your special requirements and come up with a negotiated rate for this. Most partners like Delhivery offer special services related to large oversized deliveries.

viii. **Save on Warehouses and Fulfilment Centres:** Save on huge fixed costs related to setting up warehouses and fulfilment centres for your business by partnering with a vendor. For example, Delhivery has over 85 fulfilment centres across India, along with a proprietary warehouse management system that lets you scale your delivery operations with zero fixed costs. They combine warehousing and freight solutions to help save costs in your distribution activities.

Quick Take

Following the innovative practices of the industry can help reduce the supply chain costs in a significant manner.

GROUP: iii, PAPER: 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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Your Preparation Quick Takes

Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Case StudyAnalysis **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

Choose the correct alternative

1. What is the due date of filing the return of income in case of a company who is required to furnish a report in Form No. 3CEB under section 92E?

a. October 31 of the assessment year
b. **November 30 of the assessment year**
c. July 31 of the assessment year
d. June 30 of relevant assessment the year

Reason:
As per explanation 2 to sec. 139(1), the due date of filing the return in case of a company who is required to furnish a report in Form No. 3CEB u/s 92E is November 30 of the assessment year.

2. Assessment under following section is termed as scrutiny assessment

a. **143(3)**
b. 144
c. Both of the above
d. None of the above

Reason:
Assessment u/s 144 is termed as "Best Judgment Assessment'. Assessment u/s 143(3) is termed as 'Scrutiny Assessment'

3. Which of the following can be corrected while processing the return of income under section 143(1)?

a. **any arithmetical error in the return**
b. any error in the return of income
c. any mistake in the return of income
d. any claim by the taxpayer which is against law

Reason:
Processing of the return u/s 143(1) is like preliminary checking of the return of income. At this stage no detailed scrutiny of the return of income is carried out. The total income or loss is computed after making the basic adjustments (if any), like (i) any arithmetical error in the return; or (ii) an incorrect claim, if such incorrect claim is apparent from any information in the return.

4. The objective of carrying out assessment u/s 147 is to bring under the tax net __________

a. Any money, bullion, jewellery, valuable article, etc. which are undisclosed
b. **Any income which has escaped assessment**
c. Any of the above
d. Both of the above

Reason:
The objective of carrying out assessment or reassessment or recomputation u/s 147 is to bring under the tax net any income which has escaped assessment. Sec. 147 is also known as Income Escaping Assessment.

5. Every company to whom the provisions of MAT apply is required to obtain a report from a chartered accountant in Form No. ______

a. 29
b. 29A
c. **29B**
d. 29C

Reason:
Every company to whom the provisions of MAT apply is required to obtain a report from a chartered accountant in Form No. 29B

6. Prosecution can be launched and the taxpayer can be punished if he commits wilful failure to produce before the tax authorities the accounts and documents as demanded under section ___________.
   a. 154
   b. 147
   c. 143(1)
   d. **142(1)**

Reason:
Section 142(1) deals with the general provisions relating to an inquiry before assessment. U/s 142(1), the Assessing Officer can issue notice asking the taxpayer to file the return of income, if he has not filed the return of income or to produce or cause to be produced such accounts or documents as he may require and to furnish in writing and verified in the prescribed manner information in such form and on such points or matters (including a statement of all assets and liabilities of the taxpayer, whether included in the accounts or not) as he may require. Sec. 276D provides for prosecution in the case of wilful failure by the taxpayer to produce accounts and documents under section 142(1)

7. In case of an application made by the assessee u/s 154, the income-tax authority shall rectify the order/refuse the rectification within ___________ from the end of the month in which the application is received by the authority.
   a. 4 years
   b. 2 years
   c. 1 year
   d. **6 months**

Reason:
In case of an application made by the assessee u/s 154, the income-tax authority shall rectify the order / refuse to do so within 6 months from the end of the month in which the application is received by the authority.

8. Provisions relating to revision are provided in sections ________.
   a. 80C to 80U
   b. 245A to 245L
   c. 237 to 245
   d. **263 & 264**

Reason:
Provisions relating to revision are provided in sections 263 and 264.

9. *Uncontrolled transaction* means a transaction between _____________, whether resident or non-resident
   a. **enterprises other than associated enterprises**
   b. associated enterprises
   c. any enterprises
   d. none of the above

Reason:
Uncontrolled transaction means a transaction between enterprises other than associated enterprises, whether resident or non-resident

10. Countries that employ explicit policies designed to attract international trade oriented activities by minimization of taxes and reduction or elimination of other restrictions on business operations is described as ________.
   a. **Tax Havens**
   b. Tax Planning
   c. Tax Evasion
   d. Tax Management

Reason:
Many fiscally sovereign territories and countries use tax and non-tax incentives to attract activities in the financial and other services sectors. These territories and countries offer the foreign investor an environment with a no or only nominal taxation which is usually coupled with a reduction in regulatory or administrative constraints. The activity is usually not subject to information exchange because, for example, of strict bank secrecy provisions. These jurisdictions are known as tax havens. In other words, any country which modifies its tax laws to attract foreign capital could be considered a tax haven. The central feature of a haven is that its laws and other measures can be used to evade or avoid the tax laws or regulations of other jurisdictions. A tax haven is a state or a country or territory where income tax are levied at a low rate or no tax at all is levied.

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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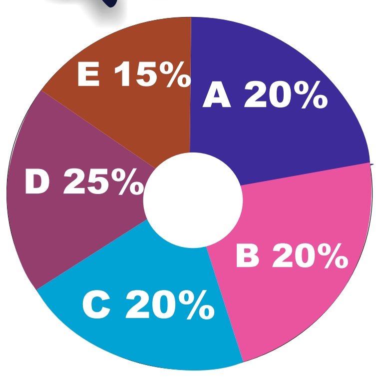
Your Preparation Quick Takes



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.

Corporate Financial Reporting

Consolidated financial statements of a group consisting of a parent and its subsidiary.

Ind AS 103 Business Combination states that the acquirer obtaining control over acquiree, recognises and measures in its consolidated financial statements

(i) the identifiable assets acquired, the liabilities assumed at Fair Value and

(ii) any non-controlling interest in the acquiree at Fair Value or at Proportionate Value and

(iii) the goodwill acquired in the business combination or a gain on bargain purchase.

In the consolidated financial statements on the date of acquisition they would be incorporated accordingly based on Ind AS 110.

Accounting for consolidated financial statements (as per Ind AS 110) is made at the reporting date by combining assets and liabilities of parent and subsidiaries, measuring non-controlling interest [Ind AS 110] and recognizing goodwill [Ind AS 103].

Accounting procedure for consolidation in steps

1. Find Purchase Consideration at Fair Value (FV)
2. Find Net assets of Subsidiary (S) at FV at acquisition
3. Find Non-Controlling Interest (NCI) (either at FV or at proportionate Net Asset value) at acquisition
4. a. Find Goodwill = PC + NCI + FV of previously held Interest in S – Net Assets of S

b. Find Gain on Bargain Purchase = Net Assets of S – (PC + NCI + FV of previously held Interest in S) transferred to Capital Reserve to appear under Other Equity

5. Find Equity Share Capital of Parent (P) at acquisition: Equity Share Capital before issue of shares for purchase consideration + Paid up value of fresh issue of shares for purchase consideration
6. Find Other Equity of P at acquisition: Other Equity before issue of shares for purchase consideration + Security Premium for issue of shares for purchase consideration
7. Combine assets and liabilities of S at FV with assets and liabilities of P at acquisition
8. Find post-acquisition profits of S:

(a). Other Equity of S at Reporting Date = Other Equity of S at Acquisition Date +/- Reversal of Loss/Profit on Revaluation of Current assets/liabilities of S at acquisition

or, (b). Profits/loss and Other comprehensive income during post-acquisition period +/- Reversal of Loss/Profit on Revaluation of Current assets/liabilities of S at acquisition

9. Find P's share of post-acquisition profits and add it to the Other Equity. Also find NCI share of post-acquisition profits and add it to NCI at acquisition
10. Combine non-current assets and liabilities of S at book value with non-current assets and liabilities of P at reporting date +/- Revaluation increase/decrease at acquisition
11. Combine current assets and liabilities of S at book value with non-current assets and liabilities of P at reporting date.

Illustration 1.

P Ltd. acquires 80% shares of S Ltd. by issue of 48000 shares of Rs. 10 (Mkt price Rs. 25) on 01-04-2021.

(A) Relevant data of P Ltd. and S Ltd. are as follows: (Rs.)

As at 01-04-2021 before acquisition	S Ltd.		P Ltd.
	Book Value BV	Fair Value FV	Book Value BV
PPE	700000	1000000	1200000
Current Assets	300000	280000	600000
Total	1000000	1280000	1800000
Equity Share Capital	300000		600000
Other Equity	240000		400000
Non-Current Liabilities	200000	200000	500000
Current Liabilities	260000	250000	300000
Total	1000000		1800000

Prepare Separate and Consolidated balance sheet of P Ltd. and its subsidiary S Ltd. as at 01-04-2021.

(B) Additional data after one year:

As at 31-03-2022	S Ltd.		P Ltd. Stand alone
	Book Value BV		Book Value BV
PPE	750000		1300000
Investment			1200000
Current Assets	360000		660000
Total	1110000		3160000
Equity Share Capital	300000		1080000
Other Equity	270000		1170000
Non-Current Liabilities	240000		560000
Current Liabilities	300000		350000
Total	1110000		3160000

Prepare Separate and Consolidated balance sheet of P Ltd. and its subsidiary S Ltd. as at 31-03-2022. Consider NCI at proportionate net asset value.

Soln:

Working Notes:

1. Net assets at FV:

	Fair Value FV
PPE	1000000
Current Assets	280000
Total assets (A)	1280000
Non-Current Liabilities	200000
Current Liabilities	250000
Total liabilities (B)	450000
Net Assets (A – B)	830000

2. Purchase consideration (FV) = 48000*25 = Rs. 1200000
3. Non-controlling Interest (20%)
a) under FV option = (20/80) *1200000 = 300000
b) under proportionate net asset option = 20%*830000 = 166000

4. (a) Goodwill^a = PC + NCI^a – NA = 1200000 + 300000 – 830000 = 670000
(b) Goodwill^b = PC + NCI^b – NA = 1200000 + 166000 – 830000 = 536000

Consolidated Balance Sheet of P Ltd. and its subsidiary S Ltd. as at 01-04-2021

Assets	Working Note	Rs.
Non-current assets		
PPE	1200000 + 1000000	2200000
Goodwill^a	WN 4(a)	670000
Current assets	600000 + 280000	880000
Total assets		3750000
Equity and Liabilities		
Equity		

Equity Share Capital	600000 + 48000*10	1080000
Other Equity	400000 + 720000	1120000
Non-Controlling Interest	WN 3(a)	300000
Non-Current Liabilities	500000 + 200000	700000
Current Liabilities	300000 + 250000	550000
Total of Equity and Liabilities		3750000

[a]Based on NCI at FV
Alternative:
Consolidated Balance Sheet of P Ltd. and its subsidiary S Ltd. as at 01-04-2021

Assets	Working Note	Rs.
Non-current assets		
PPE	1200000 + 1000000	2200000
Goodwill[b]	WN 4(b)	536000
Current assets	600000 + 280000	880000
Total assets		3616000
Equity and Liabilities		
Equity		
Equity Share Capital	600000 + 48000*10	1080000
Other Equity	400000 + 720000	1120000
Non-Controlling Interest	WN 3(b)	166000
Non-Current Liabilities	500000 + 200000	700000
Current Liabilities	350000 + 300000	650000
Total of Equity and Liabilities		3616000

[b]based on NCI at Proportionate Net Asset value
Separate Balance Sheet of P Ltd. as at 01-04-2021 after acquisition

PPE	1200000
Investment in shares of S Ltd.	1200000
Current Assets	600000
Total	3000000
Equity Share Capital	1080000
Other Equity	1120000
Non-Current Liabilities	500000
Current Liabilities	300000
Total	3000000

(B)
Consolidated Balance Sheet of P Ltd. and its subsidiary S Ltd. as at 31-03-2022

Assets	Working Note	Rs.
Non-current assets		
PPE	1300000 + 750000 + 300000	2350000
Goodwill*	WN 4(b)	536000
Current assets	660000 + 360000	1020000
Total assets		3906000
Equity and Liabilities		
Equity		
Equity Share Capital	600000 + 48000*10	1080000
Other Equity	1170000 + 32000 (WN 5)	1202000
Non-Controlling Interest	WN (6)	174000
Non-Current Liabilities	560000 + 240000	800000
Current Liabilities	350000 + 300000	650000
Total of Equity and Liabilities		3906000

*based on NCI at Proportionate Net Asset value

WN 5. Post-acquisition profits of S Ltd.

Other Equity on 31-03-2022	270000
Other Equity on 01-04-2021	240000
Profits during 21-22	30000
Reversal of Revaluation profits/loss of CA and CL (CA loss 20000 and CL gain 10000)	+10000
Post-acquisition profit	40000
P Ltd 80%	32000
NCI 20%	8000

WN 6. NCI at reporting date

NCI at acquisition	166000
Add: Post-acquisition profit(20%)	8000
	174000

Separate Balance Sheet of P Ltd. as at 31-03-2022

PPE	1300000
Investment in shares of S Ltd.	1200000
Current Assets	660000
Total	3160000
Equity Share Capital	1080000
Other Equity	1170000
Non-Current Liabilities	560000
Current Liabilities	350000
Total	3160000

YEARS OF CELEBRATING THE MAHATMA

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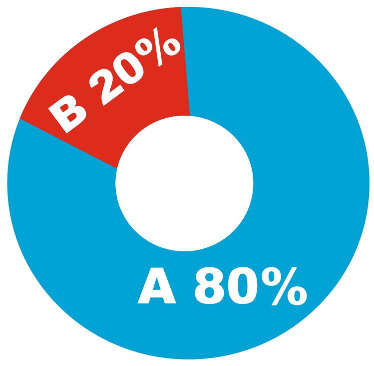
GROUP: iv, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- Information required for GST Audit
- GST compensation cess
- Penalties under GST
- Non cognizable offence
- Show cause notice
- Standard operating practice under GST
- GST liabilities
- Adjudication Authority

INDIRECT TAX

Choose the correct option from the followings – .

1. **Which of the following will not be considered as any information required in Part VI of the Form – 9 under GST Audit –**

(a) GST Demands and refunds,
(b) HSN wise summary information of the quantity of goods supplied and received with its corresponding Tax details against each HSN code
(c) Details of penalty paid as declared in returns filed during the FY
(d) Segregation of inward supplies received from different categories of taxpayers like Composition dealers, deemed supply and goods supplied on approval basis

2. **Which of the following statement is correct in relation to GSTR – 9C**

(a) It consist of Reconciliation and Certification
(b) Basic details of the taxpayer which will be auto-populated
(c) Details of Outward and Inward supplies declared during the financial year(FY)
(d) Details of gross tax paid as declared in returns filed during the FY

3. **In case of Certification of the GSTR – 9C which of the following statement is relevant**

(a) Certificate can only given by a CA who conducted GST Audit
(b) Certificate can only given by a CA who has not conducted GST Audit
(c) Certified can be given by the same CA who conducted the GST audit or it can be also certified by any other CA who did not conduct the GST Audit for that particular GSTIN
(d) The format for certification report will not be depending on who the certifier is

4. **GST Compensation Cess is levied on inter-State and intra-State transactions of goods and Service To promote the infrastructural facilities of the States**

(a) To compensate the revenue losses occurred to the States because of the implementation of GST in the country
(b) To compensate the small traders losses occurred to the States because of the implementation of GST in the country
(c) compensation cess available to all products excepts agricultural products

5. **GST Cess range of the Aerated Drinks is**

(a) 5%
(b) 12%
(c) 18%
(d) 28%

6. **Can input credit be availed on Cess paid on inward supply of these goods**

(a) Availing of input tax credit depends on GST officials
(b) Input credit can be availed on Cess paid on inward supplies.
(c) Input credit can not be availed on Cess paid on inward supplies
(d) Availing of input tax credit on cess for specified goods as discretion of State or Union Territory

7. **Penalties for incorrect invoicing under GST is**

(a) Rs 10000/-
(b) Rs 15000/-
(c) Rs 20000/-

(d) Rs 25000/-

8. In which of the following case penalty will be levied under GST

(a) IGST paid instead of CGST & SGST or vise a versa
(b) wrongfully charging higher GST rate
(c) GSTR filed incorrectly in time.
(d) Bill amount including Tax not paid within 180 days from the date of invoice

9. Any Non-cognizable offences under GST where tax amount involved more than Rs 200 lakhs but less than Rs 500 lakhs the quantum of punishment will be

(a) Imprisonment up to 6 months or with fine or with both
(b) Imprisonment up to 1 years with fine
(c) Imprisonment up to 3 years with fine
(d) Imprisonment up to 5 years with fine

10. Monetary limit of the amount of CGST & IGST (including cess) not paid or short paid or erroneously refunded or input tax credit of central tax wrongly availed or utilized more than Rs 20 lakhs but less than Rs 2 crores for issuance of show cause notices and passing of orders under sections 73 and 74 of CGST Act the officer of the Central Tax will be –

(a) Superintendent of Central Tax
(b) Deputy or Assistant Commissioner of Central Tax
(c) Additional or Joint Commissioner of Central Tax
(d) Commissioner of Central Tax

11. Time limit for issue of Show Cause Notice under GST for Non-payment of selfassessed tax.

(a) Within 2 years and 9 moths from the due date of filing Annual Return for the Financial Year to which the demand pertains or from the date of erroneous refund.
(b) Within 4 years and 6 moths from the due date of filing Annual Return for the Financial Year to which the demand pertains or from the date of erroneous refund.
(c) No time limit
(d) No need to issue a show cause notice

12. Which of the below mentioned statement is not correct

(a) The proper officer shall, before service of notice to the person chargeable with tax, interest and penalty, under Section 73(1) or 74(1),has no liability to communicate the details of any tax, interest and penalty as ascertained by the said officer, in Part A of FORM GST DRC- 01A.
(b) The taxpayer after receiving DRC-01A, may file any submissions against the proposed liability in Part B of FORM GST DRC-01A.
(c) Taxpayer will be able to take advantage of nil or reduced penalty under section 73(5) and 74(5)
(d) If the demand uploaded in FORM GST PMT-01 is rectified, modified or quashed in any proceedings, then the summary of the same will be uploaded in FORM GST DRC-08A and part 2 of electronic liability register in FORM GST PMT-01

13. Any amount payable by a taxable person in pursuance of an order passed under this Act (under Section 78 of the CGST Act,2017) shall be paid by such person from the date of service of such order failing which recovery proceedings shall be initiated within a period of

(a) One month
(b) Two months
(c) Three months
(d) Four months

14. Under Section 80of the CGST Act, 2017 no installment facility will be allowed for recovery of the dues if the amount is less than

(a) Rs 10000/-
(b) Rs 15000/-
(c) Rs 25000/-
(d) Rs 50000/-

15. Which of the statement is not correct in regard to the standard operating procedure for the purpose of assessment of tax liability under section 62, the proper officer may take into account the following

(a) Details of outward supplies available in GSTR-1
(b) Details of inward supplies auto-populated in GSTR-2A
(c) Information available from e-way bills

(d) Details of input tax credit availed.

16. Under Section 86 of the GST Act,2017 If an agent supplies or receives any taxable goods on behalf of his principal, the liability to pay GST will be paid by
(a) Agent
(b) Principal
(c) Under reverse charge mechanism from the customer to whom taxable goods been supplied
(d) Both the agent and the principal will be liable to pay GST, jointly and severally

17. For payment of GST liabilities in case of liquidation which of the following statement is correct
(a) Company will be liable to pay GST
(b) Directors will be liable to pay GST
(c) Shareholders will be liable to pay GST
(d) Company and then directors will be liable to pay GST

18. Which one of the following will be considered as Adjudicating Authority under Section 2(4) of the CGST Act, 2017
(a) any authority, appointed or authorised to pass any order or decision under this Act
(b) Central Board of Indirect Taxes and Customs
(c) the Appellate Authority for Advance Ruling
(d) the Appellate Tribunal

19. Mandatory pre-deposit for entertaining appeal under CGST Act will be refunded where said amount becomes refundable on account of order in favor of assessee with Interest at the rate
(a) 3%
(b) 6%
(c) 9%
(d) 12%

20. What is the time limit for filing appeal by any person aggrieved by any decision or order passed by an adjudicating authority under Section 107 of the CGST Act, 2017
(a) 1 month
(b) 2 months
(c) 3 months
(d) 4 months

ANSWERS

1	c	6	b	11	d	16	d
2	a	7	d	12	a	17	d
3	c	8	b	13	c	18	a
4	b	9	c	14	c	19	b
5	b	10	b	15	d	20	c

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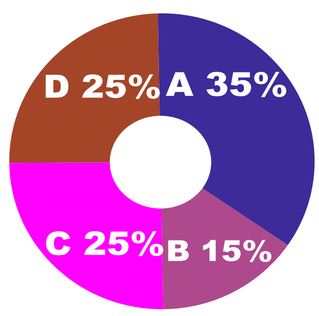
COST & MANAGEMENT AUDIT (CMAD)

Your Preparation Quick Takes



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

Standards on Cost Auditing – Its importance and Application

Cost audit is an independent examination of cost records maintained by the company. The cost records are to be maintained by the company following the Cost Accounting Standards as well as the principles prescribed in CRA – 1, which are mandatory for the companies as prescribed in Rule – 3 of Companies (Cost Records and Audit) Rules, 2014. Cost Accounting Standards lay down the requirements for treatment of various cost elements, minimum disclosure requirements and ensure the comparability, consistency, and completeness of cost accounting records.

The Cost Auditor appointed as per Provisions of section 148 of The Companies Act, 2013, for the audit of the cost records, has to abide by the Cost Auditing Standards while carrying the cost audit of the Company. The report of the cost auditor given in Form – CRA 3 in pursuant to Rule 6(4) of Companies (Cost Records and Audit) Rules, 2014, must be in "compliance to the cost auditing standards" issued by The Institute of Cost Accountants of India with the approval of the Central Govt. Therefore, it is mandatory for the Cost Auditor to understand and follow the Cost Auditing Standards, while conducting the cost audit, as default in complying with the provisions, make the cost auditor liable for punishment. The Companies Act, 2013 has prescribed penalties for the auditor as per section 143 (13) for an amount of Rupees 1 lakh to Rupees 25 Lakhs for which the cost auditor and all the partners, where there are, are severally and jointly liable.

Cost Auditing Standards provides the guidelines and procedures to be followed by the Cost Auditor during the conduct of Cost Audit. It ensures maintenance of the professional integrity, quality of audit and compliance of procedure and reporting.

There are four (4) Cost Auditing Standards so far made mandatory by the Ministry of Corporate Affairs. Another 15 Cost Auditing Standards have been finalized by the Cost Auditing Standards Board and are forwarded to the Ministry of Corporate Affairs for approval. The first four standards are effective for audits on or after September 11, 2015. Each Auditing Standards provides its application guidance. The four Cost Auditing Standards with their essential characters are described below.

Cost Auditing Standard – 101 - Cost Auditing Standard on Planning an Audit of Cost Statements

- This Standard deals with the auditors' responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.
- The Cost Auditor shall consider all relevant factors. These relevant factors include:
  - (a) Results of preliminary activities such as-letter of appointment and legal formalities regarding his appointment
  - (b) Knowledge from previous audits and other engagements with the auditee.
  - (c) Knowledge of business
  - (d) Nature and scope of the audit
  - (e) Statutory deadlines and reporting format
  - (f) Relevant factors determining the direction of the audit efforts
  - (g) Nature, timing and extent of resources required for the audit.
- The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work. Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
- The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes.

Cost Auditing Standard – 102 - Cost Auditing Standard on Cost Audit Documentation

- The objective of this Standard is to guide the members to prepare documentation that provides:
  - (a) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and
  - (b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.
- The cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached. The documentation usually contains checklists (of compliance with relevant rules), audit programs of verification of each cost elements (Material cost, Employees cost, Repairs Cost etc.), analysis for true & fair view of costs, audit query list, letters of conformation.
- Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.
- The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:

(a) Conformance of audit procedures performed with legal and regulatory requirements;
(b) Conformance to Cost Auditing Standards
(c) The results of audit procedures performed
(d) The audit evidence obtained
(e) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

- The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders in manner of minutes of discussion with persons involved with the management of the company and the third parties in relation to the audit.
- The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard.

Cost Auditing Standard – 103 - Cost Auditing Standard on Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards

- The Cost auditor's overall objectives are to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the Cost of a product, activity or service.
- The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
- The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.
- The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion
- The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder
- An attitude of professional scepticism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof.
- The cost auditor is responsible for forming and expressing an opinion on the Cost Statements.

Cost Auditing Standard – 104 - Cost Auditing Standard on Knowledge of Business, its Processes and the Business Environment

- This standard deals with obtaining the knowledge of the client's business, its processes and business environment to develop a reasonable assurance in order to express an opinion on the cost statements
- The cost auditor should obtain an understanding of the nature of the entity, relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework, the entity's selection and application of cost accounting policies, internal controls relevant to the audit.
- The cost auditor shall identify and assess the risks of material misstatement at the cost statement level.
- While understanding controls that are relevant to the audit, cost auditor should evaluate the design of those controls and determine whether they have been implemented properly, by performing procedures in addition to discussions with the entity's personnel.
- The cost auditor should understand the related cost accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred primarily to the accounting system and subsequently to cost accounting statement.

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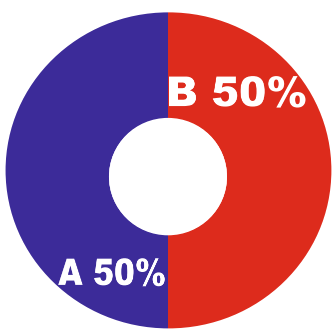
GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Your Preparation Quick Takes



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

Strategic Performance Management and Business Valuation

(Based on Study Material, MTP, RTP and Previous End-Terms Questions)

Short-type questions
(Each question carries 2 marks)

1. If the Net Operating Profit after Taxes (NOPAT) is ₹ 10,50,000, the Capital invested is ₹35,00,000 and the Weighted average cost of capital (WACC) is 12%. Find EVA (Economic Value Added)?

Answer:
EVA = NOPAT - (Invested Capital × WACC)
= ₹ 10,50,000 - (₹35,00,000 × 12%)
= ₹10,50,000 - ₹4,20,000
= ₹6,30,000.

2. What is Risk-Measurement Strategy?

Answer:
Risk-Measurement Strategy as it is not a strategy of managing risk but a strategy to quantify risk.

3. Y Ltd., is expected to generate future profits of ₹ 54,00,000. What is its value of business, if investments of this type are expected to give an annual return of 20%?

Answer:
Value of business = Annual earnings / Annual return
= ₹ 54,00,000/0.20
= ₹ 270,00,000

4. What is hostile takeover?

Answer:
The acquiring firm, without the knowledge and consent of the management of the target firm, may unilaterally pursue the efforts to gain a controlling interest in the target firm, by purchasing shares of the latter firm at the stock exchanges is called hostile takeover. This is a technique for affecting either a take-over or an amalgamation. It may be defined as an offer to acquire shares of a company, whose shares are not closely held, addressed to the general body of shareholders with a view to obtaining at least sufficient shares to give the offer or voting control of the company. Takeover bid is thus adopted by the company for taking over the control and management affairs of listed company by acquiring its controlling interest.

5. If value of B Ltd. is ₹50lakhs. T. Ltd. is ₹20 lakhs, and on merger their combined value is ₹94 lakhs and B Ltd. receives premium on merger ₹13 lakhs, then what is the synergy gain?

Answer
Synergy gain = Combined Value - Value of merging companies

= ₹[94-(50+20)] lakhs = ₹24 lakhs

6. Market price per share is ₹160; Dividend per share is ₹40 and Earnings per share is ₹55, calculate the price earnings ratio of the share.

Answer:
Price Earnings ratio = Market Price ÷ EPS = 160 ÷ 55 = 2.91

7. What is Balanced Score Card?

Answer:
Balanced Score Card is a management system, which goes beyond measurement, to setting and achieving the strategic goals and objectives for an organization.
It is a method of implementing a business strategy by translating it into a set of performance measures derived from strategic goals that allocate rewards to executives and managers based on their success of meeting or exceeding the performance measures.
It is a strategic planning and management system that is used extensively in business and industry. Government and non-profit organisations to align business activities to the vision and strategy of the organization.

8. The revenue function of a firm given by x R = (2200-3x)

R=(2200-3x) × x/2

$$= \frac{2200x}{2} - \frac{3}{2}x^2$$

$$MR = \frac{dr}{dx} = 1100 - 3x$$

1. Mention three Attributes of Quality Circle Concept.

Answer:

(i) Quality Circle is a form of participation management.

(ii) Quality Circle is a human resource development technique.

(iii) Quality Circle is a problem-solving technique.

2. What does income elasticity of demand explain?

Answer:

The income elasticity of demand explains the proportionate change in income and proportionate change in demand. The rate of change in the demand due to the change in the income is called income elasticity of demand.

$$\text{Income elasticity of demand} = \frac{\text{Proportionate change in Demand}}{\text{Proportionate change in Income}}$$

Example 1

R Ltd. is intending to acquire S Ltd. (by merger) and the following information is available in respect of both the companies— 12

Particulars	R Ltd.	S Ltd.
Total current earnings	₹ 2,50,000	₹ 90,000
Number of outstanding shares	50,000	30,000
Market price per share	₹ 21	₹ 14

Based on the above information, you are required to:

(I) Present EPS of both the companies.

Answer:

EPS = Total Earnings/No. of Equity shares

EPS_{RLtd} = 2,50,000/50,000=₹ 5

EPS_{SLtd} = 90,000/30,000=₹ 3

(II) If the proposed merger takes place what would be the new EPS for R Ltd. (assuming that merger takes place by exchange of equity shares and the exchange ratio is based on the current market price).

Answer:

No. of shares S Ltd shareholders will get in R Ltd based on market prices of shares is as follows: Exchange Ratio = 14/21 =2/3 i.e., for every 3 shares of S Ltd 2 shares of R Ltd

Total No. of shares of R Ltd issued = 14/21×30,000=20,000 shares

Total number of shares of R Ltd after merger = 50,000+20,000=70,000

Total Earnings of R Ltd after merger = 2,50,000+90,000=3,40,000 [Remember no synergy given]

The new EPS of R Ltd after merger = ₹ 3,40,000/70,000=₹ 4.86.

(III) What should be the exchange ratio if S Ltd., wants to ensure the same earnings to members as before the merger took place?

Answer:

Calculation of Exchange Ratio to ensure S Ltd. to earn the same before the merger took place: Both acquiring and acquired firm can maintain their EPS only if the merger takes place based on respective EPS.

Exchange Ratio based on EPS =3/5=0.6

Total Shares of R Ltd receivable by S Ltd. shareholders =0.6×30,000=18,000

Total number of shares of R Ltd after merger = 50,000+18,000=68,000

EPS after merger = Total Earnings/Total number of shares = [₹ 2,50,000+₹ 90,000] /68,000=₹ 5.

Total Earnings after merger of S Ltd = ₹ 5×18,000=₹ 90,000.

Example 2

You are given the following information of a company.

Particulars	(₹)
Equity Share Capital	10,00,000
13% Preference Share Capital	4,00,000
Reserves and Surplus	12,00,000
Non-trade investments (Face Value ` 1,00,000) Rate of Interest	10%

20% Debentures	6,00,000
Profit before tax	6,00,000
Tax Rate	40%
WACC	13%

Based on the above information, you are required to:

(i) Calculate NOPAT.

Answer:

Economic Value Added = NOPAT - WACC × CE

(NOPA T = Net Operating Profit After Tax

WACC= Weighted average cost of capital.

CE = Capital employed)

Items	₹
Profit before tax	6,00,000
Less: Income from Non Trade Investments 10 % × 1,00,000	(10,000)
Add: Interest on debentures 20% × 6,00,000	1,20,000
Net Operating Profit Before Tax	7,10,000
Taxes 40 %	2,84,000
NOPAT	4,16,000

(ii) Determine the amount of capital employed.

Answer:

Capital Employed:	
Equity Share Capital	10,00,000
Preference Share Capital	4,00,000
Reserves and Surplus	12,00,000
20% Debentures	6,00,000
Sub total	32,00,000
Less: Non Trade Investments	1,00,000
Capital Employed	31,00,000

(iii) Calculate EVA.

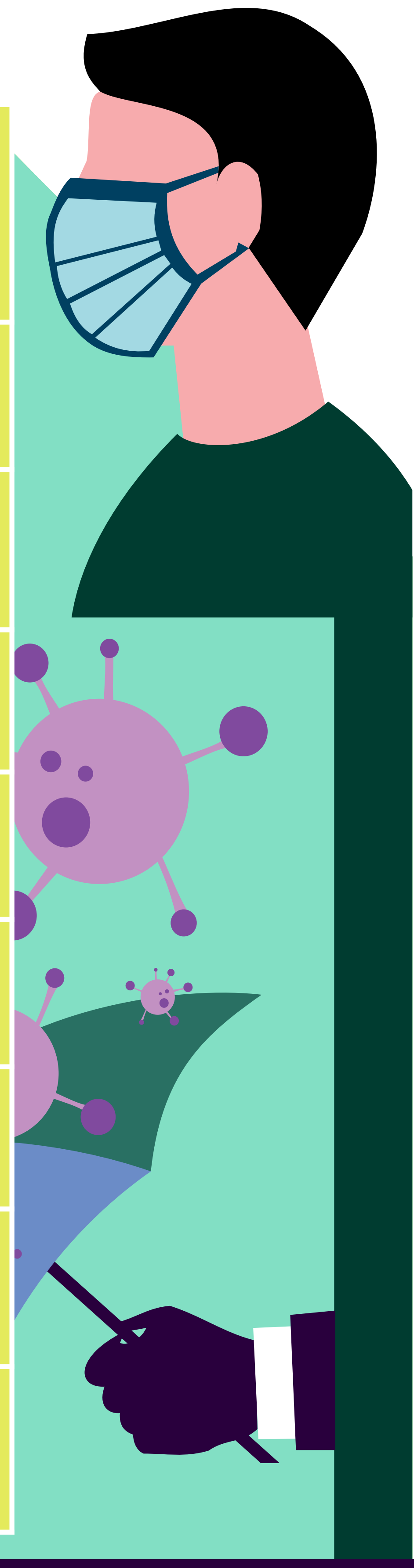
Answer:

Items	(₹)
NOPAT	4,16,000
WACC × CE = 13% × 31,00,000	4,03,000
EVA = NOPAT-WACC × CE	13,000

Vol: 7, No.: 5.
May 2022, Issue

Examination TIME TABLE

Day & Date	Final Examination Syllabus-2016 Time 2.30 p.m. to 5.30 p.m.
27th June, 2022 (Monday)	Corporate Laws & Compliance (Paper 13) (Group - III)
28th June, 2022 (Tuesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
29th June, 2022 (Wednesday)	Strategic Financial Management (Paper 14) (Group - III)
30th June, 2022 (Thursday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
1st July, 2022 (Friday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
2nd July, 2022 (Satudray)	Cost & Management Audit (Paper 19) (Group -IV)
3rd July, 2022 (Sunday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
4th July, 2022 (Monday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)



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PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

Practical support, information and advice to help you get the most out of your studies.

START

01 Read Study Notes, MTPs,E-Bulletin, Work Books, Attend Webinar sessions

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Dear Students,

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

We have noted your 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:
e-mail: studies.ebulletin@icmai.in
website: http://www.icmai.in

Updation of E-Mail Address/Mobile:

Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Student may update their E-Mail id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.

Message from Directorate of Studies

Dear Students,

Heartfelt wishes to you for passing the exam!! All who passed out have been sincere and diligent since day one and never failed to amaze us with your dedication. You've proved that dedication and learning end at resulting in excellent outcomes. Best wishes for achieving the best place. So proud to call you our student! Congratulations and best wishes for your life. May your future be filled with many great achievements like this.

Those who could not pass out please be steady and we believe, everyone has intellect and presence of mind. But only a few students who can deliver the right thing at right time and with right courage become the winner in the examination. So, please try to deliver your best in your next examination.

We from the Directorate of studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. If you sincerely follow those tips, we hope, you will be successful in your endeavor.

To celebrate **75 years of independence and commemorate it as India is celebrating, 'Azadi Ka Amrut Mahotsav'**, across the country and amid the coronavirus pandemic and also organizing various events. India's freedom fighters fought a long and hard struggle for the country's independence from the British and, for years, their words have inspired us. We hope that our students will also participate and pay their homage to the freedom fighters.

Certain general guidelines are listed below and which will help you in preparing yourselves:

- Conceptual understanding & Overall understanding of the subject should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms is required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Please refer the link mentioned below :

https://icmai.in/studentswebsite

- Don't give up
- Don't give in
- Don't give out

You can win!

The Institute is pleased to inform that the University Grants Commission (UGC) Ministry of Education, Govt. of India has announced that CMA qualification be Considered equivalent to PG Degree.

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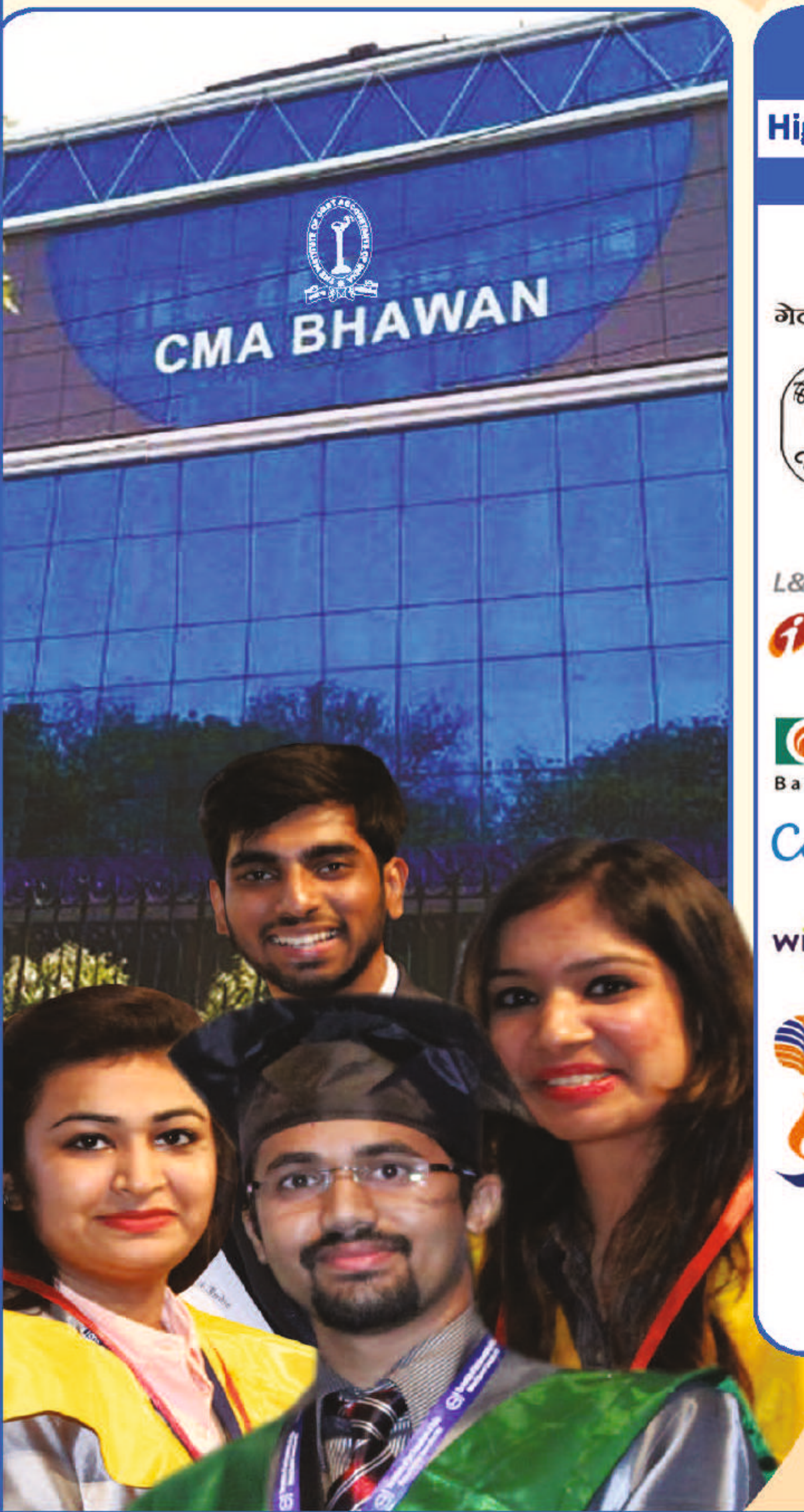

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Few Snapshots

60th National Cost Convention - 2022

Glimpses of National Students Convocation 2022 on 29 April 2022 at Kolkata

Glimpses of National Students Convocation 2022 on 29 April 2022 at Kolkata

CMA P Raju Iyer, President of the Institute with Swami Shukadevananda, Secretary, RKM Vivekananda College [Autonomous], Chennai & Other Officials of the College during the Board of Studies meeting held on 19th March 2022 at College Campus in Chennai.

Inauguration of CMA Classes & Mentoring of Students for CMA Curriculum, Value Added Courses such as GST, Forensic Audit, Internal Audit Members Present - CMA P Raju Iyer, President Along with [L to R] CMA Rakesh Shankar, Dr. S. Padmavathi, Principal of Shri Shankarlal Shasun Jain College for Women, Dr. S Rukmani, Vice Principal, Dr. C. Vimaladevi, Ms. Deepa Shridhar, Co-ordinator - CMA Support Centre

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