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Azadi Ka Amrit Mahotsav

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CMA Student E - Bulletin

FINAL

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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CONTENTS

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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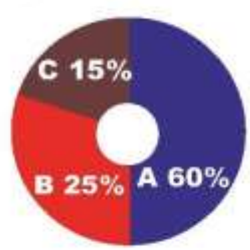
Your Preparation Quick



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.

FORMATION AND TYPES OF COMPANY

Promotion of a company:

As per Companies Act, 2013 persons whose name appears in the prospectus or identified by the company in the annual return, has control directly or indirectly over the affairs of the company either as a shareholder or a director and according to whose direction, advice or instructions the Board of Directors are accustomed to act. A person should not be regarded as a promoter if he/she acts in its personal capacity.

As per the Securities Exchange Board of India (SEBI) persons who are in control of the issuer or are instrumental in the formulation of a plan or programme pursuant to which specified securities are offered to the public. The persons whose name appears in the offer document are known as promoters.

Promoters' Agreement/ Memorandum of Understanding (MOU):

When promoters decide to do a business in the nature of a company, they will be meeting and deciding on various issues and ultimately they will choose to make a Memorandum of Understanding (MOU) though it is not mandatory. Promoters or any of the promoters can make contracts in his own name for the benefit of the proposed company. Once registered, promoter will disclose the contracts. Promoter is also duty bound to disclose any interest in the company to any interested person and will not make any secret profit.

Promoters can also make an agreement which will mention various issues relating to formation of the company and rights and liabilities of the company inter se.

Promoters may decide to prepare and sign a Memorandum of Understanding or Memorandum of Agreement (also called Promoters Agreement) while MOU is not enforceable under the law. Having an MOU or MOA is not mandatory and promoters may decide to prepare two initial documents.

- Memorandum of Understanding (MOU)
- Memorandum of Association (MOA)

The steps which are required to be complied in order to start a company are as follows:

1. application for name
2. memorandum of association and articles of association
3. list of first directors if not mentioned in articles with particulars.
4. an agreement proposed to be entered with the md
5. declaration of compliance
6. affidavit by each director that he has not been convicted.

MEMORANDUM OF ASSOCIATION:

Memorandum of Association of a company is the constitution or charter of the company and contains the powers of the company.

Name Clause:

The promoter will make an application for name and three (3) names shall be given to the Registrar of Companies (ROC) under whose jurisdiction, the registered office of the company will be situated. The Registrar of Companies (ROC) will approve the name or can suggest changes in the name. ROC will not approve a name which is considerable. The name so available will be valid for six months by which application for registration should be made by the name of the promoters. In case of public Ltd Company the name should be suffixed with "Ltd" and in case of private company by "Private Ltd". International brands works like National Hindustan Corporation etc are not allowed. Name should be in relation with the object.

Situation clause:

Memorandum of Association must mention the name of the state in which the registered office of the company is situated. However within 15 days of registration the full address to be intimated to ROC all communication shall be sent in that address. Every company must have a registered office from the date in which its starts its operation or the date of its incorporation.

Object clause: (Main object and other object)

Main object: It is the most important clause in Memorandum of Association. It states the purpose for which the company is formed. It defines the scope of activities of a company and limits the operations of the company. A Company cannot go beyond the Main object.

Other object:

The objects which are incidental or ancilliary to the main object is called other object. It should be according to the Companies Act, 2013, lawful and well defined.

Capital clause:

The companies which are limited by shares should contain this clause in the Memorandum of Association. This clause contains the amount of capital with which the company is registered i.e. the authorized capital.

Liability Clause:

This clause mentions the liabilities of the members of the company. The liability of a member is limited to the portion of unpaid share capital.

Subscription clause:

Memorandum must be signed by the subscribers. The subscribers must mention the number of shares registered in their name.

articles of association:

The Articles of Association contains the internal rules and regulation of the company. The provisions of the AOA must not be in conflict with the provisions of the Memorandum of Association. In case such a conflict arises, the MOA will prevail.

Normally, every company has its own AOA. However, if a company does not have its own AOA, the model AOA specified in Schedule I- Table A of the Companies Act, 1956 will apply.

certificate of incorporation

(Conclusive evidence that the company has been formed)

Corporate Identification No. (CIN) will be issued which is to be mentioned on the signboard at the entrance of all offices, stations, letter heads, vouchers, bills and stationaries.

Pvt. Company can commence business on incorporation.

Types of companies

Govt. Company: -

As per definition 2(45) of the Companies Act, 2013 a Govt. company means a company in which not less than (minimum) 51% of the paid up share capital is held by Central Govt. or State Govt. or partly by Central Govt. and partly by State Govt. A subsidiary of a Govt. company is also a Govt. company. There are few exemptions available to such companies where some further compliance is also required to be done by such companies. It is a separate legal entity and not a department of Govt. Govt. controls these companies both as a shareholder and also as an administrative ministry.

Holding and subsidiary company: -

As per definition in section 2(46) and 2(87) of the Companies Act, 2013 a company shall be considered to be a holding company if the other company controls the composition of the Board or holds more than half of the shares with voting rights. So there are two test of holding subsidiary relationship. In one case, management control is the basis of holding subsidiary relationship, where majority of director can be appointed and removed by the holding company. Such stipulation shall be there in the Articles of Association of the subsidiary company where it surrenders the right to appoint and remove directors to the other company regardless of shareholding.

Investment company:

This is a type of company whose principle business is the acquisition of holding and dealing of shares, stock and other securities.

Non- profit (Section 8 co.):

This type of companies are an association as limited company having charitable objects to promote commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment etc. They do not have any word 'Limited' or 'Private Limited' suffixed to their name. Any profit or income derived from this company is used to promote the objects of the company.

sectoral companies

these type of companies both Companies Act and Sector Specific Act applies.

companies (banking/NBFC/insurance/electricity)

Govt. (51% and more)/ Deemed Govt. Company: Shares of these types of companies are held by Central Govt. /State Govt. singly or jointly. Subsidiary of a Govt. company is also a Govt. company.

Indian/Foreign: Registered In India- Indian companies registered outside India and having place of business in India.

guarantee company: Shareholders guarantee to pay more as share capital in case of requirement at the time of winding up.

unlimited company: The companies which are with unlimited liability.

Small company: company with paid up capital up to Rs. 4 crores and turnover up to Rs. 40 crores**.**

One Person Company: A single and natural person can incorporate an One Person Company who is a resident and a citizen of India. The company should have minimum of one director. The company can have maximum of 15 directors.

PRIVATE/PUBLIC

Serial No.	Points of difference	Private	Public
1	shareholders	Min-2, max-3	**Min 7, no max.**
2	directors	Min-2, max.-15	**Min.-3, max.-15 (may be increased with special resolution)**
3	Finance	Cannot raise from public	**Can raise**
4	Transfer of shares	May be restricted	**Cannot be restricted**
5.	Name	Use the suffix Pvt .Ltd.	**Suffix "Ltd".**
6.	**Members**	**2 (Two), Maximum 200 (Two Hundred).**	**7 (Seven)**

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

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

Continued from previous issue….

II. Ex-ante Return

Ex-post return gives only a historical view. Thus, to evaluate the prospective performance, we need to calculate ex-ante i.e., anticipated return. Its calculation requires two components – the possible return (R_i) and the probability associated with that return (P_i).

Ex-ante Return = E(R) = $\sum R_i P_i$ where i = alternative states of nature (scenario).

Consider the following example:

Illustration 1

Mr. X expects that his investment in Security A will earn 20% if there is a boom in the economy, 15% is the economy performs moderately and only 10% if there is a recession. The probabilities associated with the three economic conditions are 0.2, 0.5 and 0.3. Calculate the expected return from Security A.

Solution:

Calculation for expected return from Security A

Scenario	R_i	P_i	$R_i \times P_i$
Boom	0.20	0.2	0.04
Moderate	0.15	0.5	0.075
Recession	0.10	0.3	0.03
		1.0	0.145

So, ex-ante return is = $E(R_A)$ = 14.5%.

Ex-ante return is helpful in selecting an investment opportunity, while ex-post return is helpful in evaluating the performance of an existing investment.

- **Concept of Risk**

In making an investment decision, assessing the return is not enough. This is because, a measurement of average historical rate of return does not necessarily mean that in every year the investor realised the same return. This realised variability in returns may provide meaningful insight for decision making. Similarly, estimating the ex-ante return is also not sufficient as the same may not be realised actually due to uncertainty. This variability or uncertainty associated with an investment is called risk. Risk is measured in terms of variability or dispersion of actual return from the average or expected return. Again, risk can be calculated as ex-post (historical) risk or ex-ante (anticipated) risk.

I. Ex-post Risk

It refers to the risk that has been realized or experienced. It is generally calculated as the standard deviation of actual return from the mean return for a given period. It is used to identify the risk of an investment already made and held for a period of time.

The formula to calculate the ex-post risk is as follows:

Ex-post Risk = Standard Deviation = $\sigma = \sqrt{\frac{1}{n}(R_t - \overline{R})^2}$.

While calculating the risk based on sample observations, however, $\frac{1}{n-1}$ is used instead of $\frac{1}{n}$.

Consider the following example:

Illustration 2

Calculate historical risk based on the following return data.

Year (t)	1	2	3	4	5
Return (R_t) (%)	5	10	20	10	5

Solution:

Calculation of historical risk.

Year (t)	R_t (%)	$(R_t - \overline{R})^2$ (%)
1	5	25
2	10	0
3	20	100
4	10	0
5	5	25
Total	50	150

So, Mean return = $\overline{R}$ = 50/5 = 10%

So, risk = S.D = $\sqrt{\frac{1}{5}*150} = \sqrt{30}$ = 5.48%.

II. Ex-ante Risk

While ex-post risk measures how variable was our earnings over the time, it is hardly useful in determining the potential of an investment. Such an analysis requires calculation of estimated risk or ex-ante risk. Ex-ante risk measures the variability of different possible returns against the estimated return. It is basically a probabilistic estimation.

Ex-ante or estimated risk calculated by the following formula.

Risk = S.D = σ = $\sqrt{\sum_{i=1}^{n} P_i\,[R_i - E(R)]^2}$

Consider the following example.

Illustration 3

Consider the following data with respect to the investment by Mr. X in Security A.

Scenario	Boom	Moderate	Recession
Return (R_i) (%)	20	15	10
Probability (P_i)	0.2	0.5	0.3

Calculate the ex-ante risk of Security A.

Solution:

Calculation of ex-ante risk

Scenario	Return (R_i) (%)	Probability (P_i)	R_i P_i	$[R_i - E(R)]$	$[R_i - E(R)]^2$	P_i $[R_i - E(R)]^2$
Boom	20	0.2	10.0	1.0	1	0.2
Moderate	12	0.5	6.0	-7.0	14	7.0
Recession	10	0.3	3.0	-9.0	81	24.3
			19.0		96	31.5

Ex-ante Risk = σ = $\sqrt{31.5}$ = 5.61%

- **Different Types of Risks**

Risk can be classified in different ways as follows:

A. Systematic and Unsystematic Risk

I. Systematic Risk

It arises out of external and uncontrollable factors, which are not specific to a security or industry to which such security belongs. It is that part of risk caused by factors that affect the price of all the securities. Systematic risk cannot be eliminated by diversification.

Systematic risk can further be classified into –

a. Market Risk which are triggered due to social, political and economic events such as regulatory changes.

b. Interest Rate Risk which arises due to fluctuating rates of interest and cost of corporate debt.

c. Purchasing Power Risk which refers to the erosion in the value of money due to the effects of inflation.

II. Unsystematic Risk

These are risks that emanate from known and controllable factors, which are unique and/ or related to a particular security or industry. These risks can be eliminated by diversification of portfolio.

Unsystematic risk can further be classified into –

a. Business Risk which refers to the volatility in revenues and profits of particular Company due to its market conditions, product mix, competition, etc.

b. Financial Risk which are risks that are associated with the Capital Structure of a Company. A Company with no Debt Financing, has no financial risk. Higher the Financial Leverage, higher the Financial Risk. Default risk is a consequence of finance risk.

Note: It is to be noted that the risk that we calculate based on standard deviation of returns (ex-post or ex-ante) is the total risk which may further be segregated into Systematic and Unsystematic Risk.

GROUP: 3, PART: 15

STRATEGIC
COST MANAGEMENT DECISION MAKING - (SCMD)

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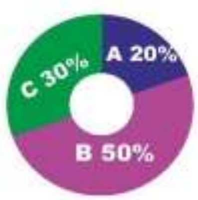
Your Preparation Quick



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

Terms to Master

01.00: Introduction

Examinations are round the corner. It is important to master key-terms for conceptual clarity and quick reference. Therefore, here go some 'Terms to Master' for examination day revision.

02.00: Terms

Activity: An activity means an aggregate of closely related tasks having some specific functions which are used for completion of a goal or objective.

Activity Based Budgeting: Activity-based budgeting is a budgeting method where activities are thoroughly analysed to predict costs.

Activity Based Costing System: Activity Based Costing may be defined as 'cost attribution to cost units on the basis of benefit received from indirect activities e.g. ordering, setting up, and assuring quality.' The system assumes that products consume activities and activities consume costs. It leads to more precise allocation of manufacturing overheads amongst the products. Activity-based costing provides a means to collect indirect costs in multiple categories and then applies the results individually to the products and services.

Activity Based Management: Activity Based Management is a set of actions that management can take, based on information from an Activity Based Costing system, to improve profitability.

Appraisal costs: Appraisal Costs are incurred in the process of uncovering defects.

Backflush Costing: Backflush Costing or Backflush Accounting is a product cost accounting approach that, as the name suggests, flushes back the cost from the end of the production process.

Bench-marking: Benchmarking is the continuous process of measuring products, services or activities against the best levels of performance that may be found either inside or outside the organization.

Break Even Point (BEP): Break Even Point is the point where 'Total Revenues' equal 'Total Costs'.

Budgetary Control: Budgetary Control is the process that facilitates effective implementation of the budgets.

Business Process Reengineering (BPR): BPR refers to a complete redesign of a process with an emphasis on finding creative new means to accomplish an objective.

Contribution: Contribution is excess of the Sales Value over the Variable Cost.

Controllable Variance: Variance is said to be controllable if it is identified as the primary responsibility of a particular person or department.

Cost: Cost is the amount paid for the resources consumed by an activity.

Cost Behaviour: Cost Behaviour refers to the changes in input costs in relation to the level of production.

Cost Control: Cost Control is the regulation by executive action of the costs of operating an undertaking, particularly where such action is guided by cost accounting.

Cost Driver: Any element that would cause a change in the cost of activity is a cost driver. Cost drivers are the basis of charging cost of activity to cost object.

Cost Object: Cost Object refers to an item for which cost measurement is required. e.g., a product, a service, or a customer.

Cost Pool: A cost pool is a term used to indicate grouping of costs incurred on a particular activity which drives them.

Cost Reduction: Cost reduction refers to the real and permanent reduction in the unit costs of goods manufactured or services rendered without impairing their suitability for the use intended.

Cost Variance: Cost Variance is the difference between a planned, budgeted or standard cost vis-à-vis the actual cost.

External Failure Costs: External Failure Costs are incurred when inferior products are delivered to customers.

Inter-firm Comparison: Inter-firm Comparison means the techniques of evaluating the performances, efficiencies, deficiencies, costs and profits of similar nature of firms engaged in the same industry or business.

Internal Failure Costs: Internal Failure Costs are associated with discovering poor product quality before the product reaches the customer site.

Investigation of Variances: Investigation of variances implies systematic examination of deviations undertaken for the purpose of initiating corrective actions.

Just-In-Time: Just-In-Time is a management technique in which goods are received from suppliers only as and when they are needed. The main objective of this method is to reduce inventory holding costs and increase inventory turnover.

Lean Accounting: Lean Accounting is the application of lean thinking to all accounting and finance processes and systems.

Margin of Safety: Sales above the breakeven level reflect the Margin of Safety.

Prevention Costs: Prevention Costs are all costs incurred in the process of preventing poor quality from occurring.

Product Differentiation: Product Differentiation is the process of distinguishing a product or service from others, to make it more attractive to a particular target market.

Profit Variance: Profit Variance is the difference between planned, budgeted or standard profit vis-à-vis the actual profit attained.

Quality: Quality is that characteristic or a combination of characteristics that distinguishes one article from the other or goods of one manufacturer from that of competitors or one grade of product from another when both are the outcome of the same factory.

Quality Management: Quality Management is defined as "coordinated activities to direct and control an organization with regard to quality" (ISO 9000:2000).

Relevant Costs: Relevant Costs are costs which are relevant for a specific purpose or situation.

Resource: Resources are elements that are used for performing the activities or factors helping in the activities.

Revenue Variance: Revenue Variance is the difference between planned, budgeted or standard revenue vis-à-vis the actual revenue generated.

Six Sigma: Six Sigma is a set of techniques and tools for process improvement.

Standard Costing: Standard Costing is a control technique that reports variances by comparing actual costs to pre-set standards thereby facilitating action through management by exception.

Strategic Cost Management: Strategic cost management refers to the cost management that specifically focuses on strategic issues.

Supply Chain: Supply Chain refers to the entire gambit of linkages in manufacturing a product or rendering a service.

Theory of Constraints: The Theory of Constraints is a methodology for identifying the most important limiting factor (i.e., constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor. In manufacturing, the constraint is often referred to as a bottleneck.

Throughput Accounting: Throughput Accounting (TA) is variable-cost-accounting presentation based on the definition of throughput (sales minus material and component costs). Sometimes, it is referred to as super variable costing because only material costs are treated as variable. It is a management accounting technique used as a performance measure in the theory of constraints.

Total Quality Management: Total Quality Management is a philosophy of continuously improving the quality of all the products and processesin response to continuous feedback for meeting the customers' requirements.

Transfer Price: Transfer price is the notional value of goods and services transferred from one division to the other division of an organisation.

Uncontrollable Variance: When the variations are due to the factors beyond the control of the concerned person or department, it is said to be uncontrollable.

Uniform Costing: Uniform Costing may be defined as the application and use of the same costing principles and procedures by different organisations under the same management or on a common understanding between members of an association.

Value Analysis: Value Analysis (VA) or Value Engineering (VE) is a function-oriented, structured, multi-disciplinary team approach to solving problems or identifying improvements.

Value Chain: Value chain is a set of activities that an organization carries out to create value for its customers.

Variance: Variance denotes the deviation between the standard proposition and the actual incidence. The proposition could be a pre-set benchmark, budget or estimate and so on.

03.00: Quick Take

Mastery in terminology enables mastering the concepts.

GROUP: 3, PART: 16

CA Vikash Mundra

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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%**

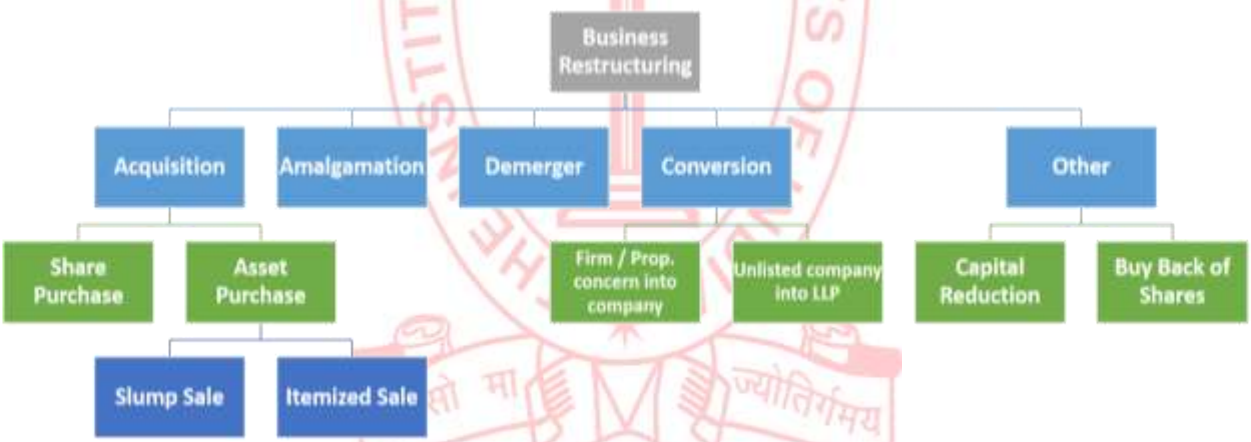
C Case Study Analysis **20%**

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.

Amalgamation

Restructuring is term used for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Companies are resorting to acquisitions as a means to consolidate and grow rapidly in an ever changing business environment. As a result, there is an increase in the level of restructuring activity in various sectors. Change in ownership or operational structure transaction have tax implication. The purpose of a suitable business strategy for restructuring must increase efficiency, consolidate operations, increase market share, assist in turn around, increase market capitalization and create entry barrier for competitors. Proper tax planning in this regard shall reduce the cost of restructuring in this front. The chapter highlights the various tax aspect in hands of all concerned person.

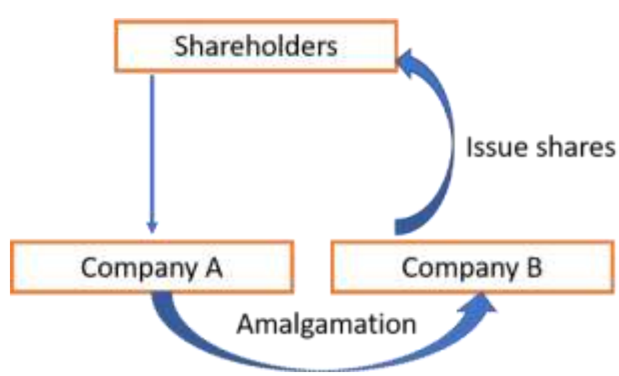


Definition [Sec. 2(1B)]

Amalgamation (in relation to companies) means:

- the merger of one or more companies with another company; or
- the merger of two or more companies to form one company;

in such a manner that—



(a) all assets and liabilities of the amalgamating company or companies immediately before the amalgamation becomes the assets and liabilities of the amalgamated company;

(b) shareholders (both equity or preference) holding not less than 75% in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders (equity or preference) of the amalgamated company.

- Number of shares allotted to the shareholders of the amalgamating company by the amalgamated company is not relevant.
- Where C Ltd. merges with Z Ltd., in a scheme of amalgamation, and immediately before the amalgamation, Z Ltd. holds 20% of the share in C Ltd., the aforesaid mentioned condition will be satisfied if shareholders holding not less than ¾th (in value) of the remaining 80% of the shares in C Ltd., i.e., 60% thereof (3/4 x 80), become shareholders of Z Ltd., by virtue of the amalgamation. Where, however, the whole of the share capital of a company is held by another company, the merger of the two companies will qualify as an amalgamation within sec. 2(1B), if the other two conditions are satisfied [Circular 5P, dated 9-10-67]

Exceptions:

Following mergers shall not be treated as amalgamation -

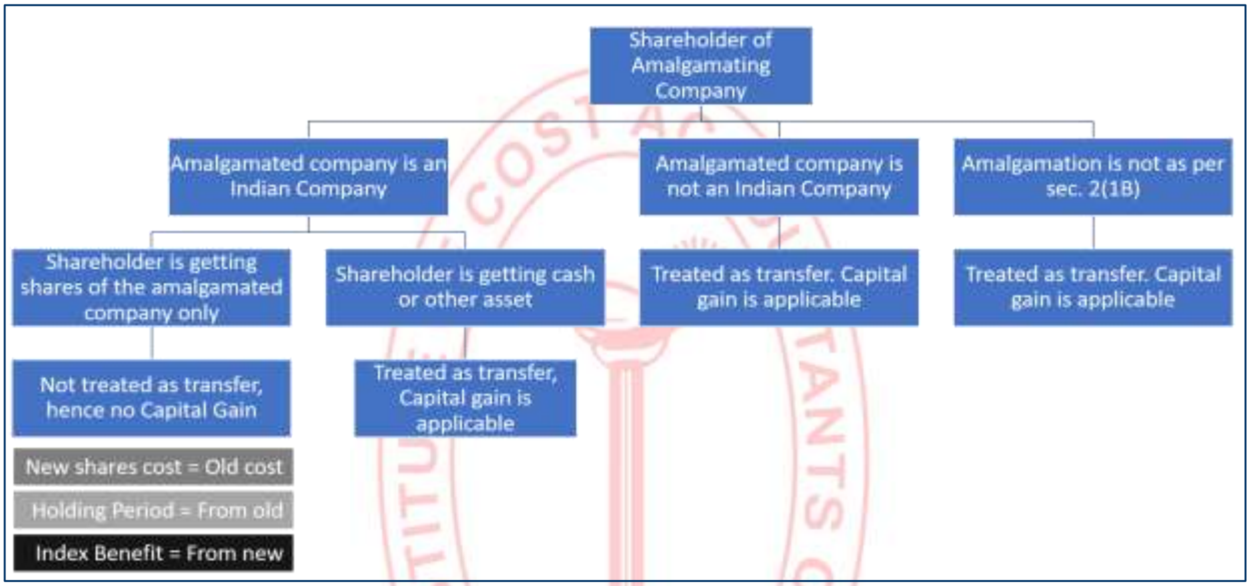
- Merger as a result of acquisition of the property of one company by another company pursuant to the purchase of such property by the other company; or
- Merger as a result of distribution of such property to the other company after the winding up of the first-mentioned company.

Amalgamation & Shareholder of amalgamating company

Effect of amalgamation on a shareholder are as under:

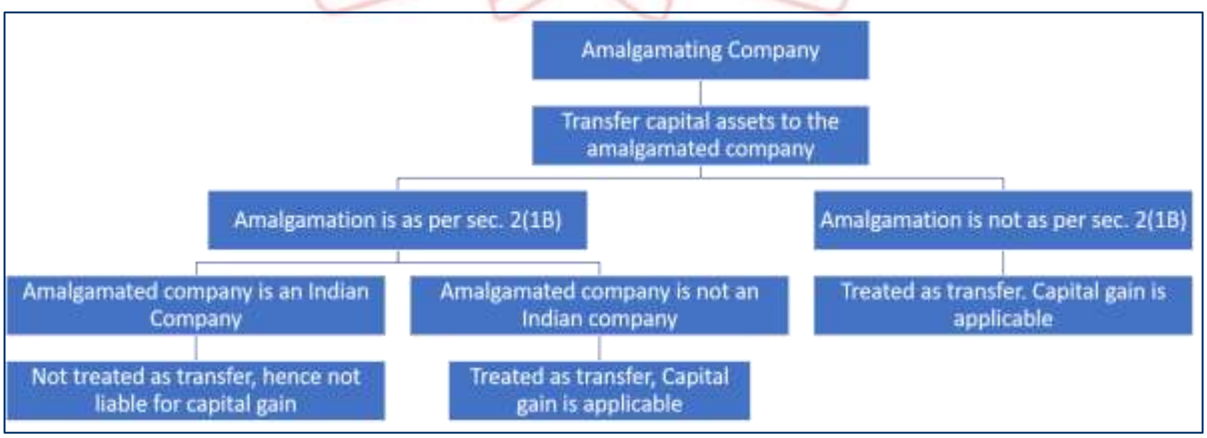
Transfer of shares of amalgamating company	As per sec. 47(vii), any transfer by a shareholder, in a scheme of amalgamation, of share(s) held by him in the amalgamating company is not treated as transfer and hence not liable to capital gain tax, if following conditions are satisfied: i. The transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company; and ii. The amalgamated company is an *Indian* company.
Cost of shares in amalgamated company	The cost of shares in amalgamating company shall be deemed to be the cost of shares in amalgamated company. [Sec. 49(2)]
DETERMINATION OF NATURE OF ASSETS	TO FIND WHETHER SHARES IN AMALGAMATED COMPANY ARE LONG-TERM OR SHORT-TERM CAPITAL ASSET, THE

	PERIOD OF HOLDING SHALL BE CALCULATED FROM THE DATE WHEN SHARES IN THE AMALGAMATING COMPANY WERE ACQUIRED. [SEC. 2(42A)]
INDEXATION BENEFIT	INDEXATION BENEFIT SHALL BE AVAILABLE FROM THE YEAR IN WHICH SHARES OF AMALGAMATED COMPANY WERE ACQUIRED BY THE ASSESSEE.

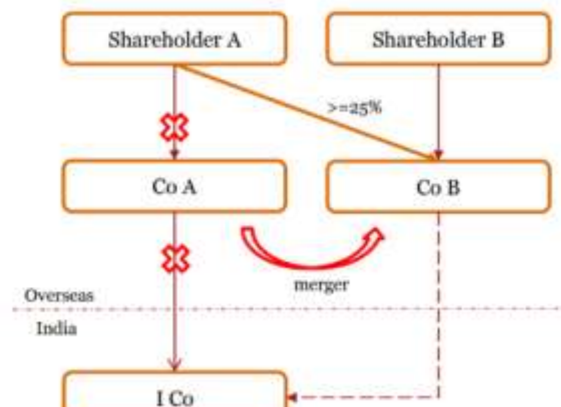


Amalgamation & amalgamating company

- As per sec. 47(vi), any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company is not treated as transfer (hence not liable to capital gain) provided the amalgamated company is an *Indian* company.
- If amalgamation does not satisfy condition of sec. 2(1B) **and** of sec. 47(vi), then exemption is not available.



- As per sec. 47(viab), any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company, (referred to in the Explanation 5 of sec.9(1)(i)), which derives, directly or indirectly, its value substantially from the share or shares of an Indian company, held by the amalgamating foreign company to the amalgamated foreign company, if:
  a. at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
  b. such transfer does not attract tax on capital gains in the country in which the amalgamating company is incorporated.
- As per sec. 47(via), any transfer, in a scheme of amalgamation, of a capital asset being a share or shares held in an Indian company, by the amalgamating foreign company to the amalgamated foreign company is not treated as transfer (hence not liable to capital gain) provided:
  a) at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
  b) such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated.



Such transfer is exempt in foreign country

Taxpoint

- *Such transfer is in a scheme of amalgamation by the amalgamating foreign company to the amalgamated foreign company.*
- *Transferred asset must be a capital asset being a share or shares held in an Indian company.*
- *At least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company.*
- *Such transfer does not attract tax on capital gain in the country, in which the amalgamating company is incorporated.*

Amalgamation & amalgamated company

Value of non-depreciable capital assets for the purpose of capital gain

- As per sec. 49(1), where a capital asset became the property of amalgamated (Indian) company in a scheme of amalgamation, the cost of acquisition of the asset to the amalgamated company shall be deemed to be the cost for which the previous owner (i.e., amalgamating company) of the property acquired it, as increased by the cost of any improvement of the assets incurred or borne by the previous owner or the assessee, as the case may be.
- It is to be noted that where non-depreciable asset was acquired before 1-4-2001, the cost of acquisition can be taken as cost of acquisition or fair market value of the asset as on 1-4-2001, at the option of the assessee.

- In determining the period of holding of such asset, period of holding of previous owner shall also be considered, however, indexation benefit is available from the year of amalgamation.

☸ **Value of depreciable asset for the purpose of business income**

- Where in any previous year, any block of assets is transferred by the amalgamating company to the amalgamated (Indian) company in a scheme of amalgamation, then, the actual cost of the block of assets in the case of the amalgamated company shall be the written down value of the block of assets as in the case of the amalgamating company for the immediately preceding previous year as reduced by the amount of depreciation actually allowed in relation to the said preceding previous year [Exp. 2 to sec. 43(6)]
- *Allocation of depreciation in the year of amalgamation*: The aggregate deduction, in respect of depreciation allowable to the amalgamating company and the amalgamated company in the case of amalgamation shall not exceed in any previous year the deduction calculated at the prescribed rates as if the amalgamation had not taken place and such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

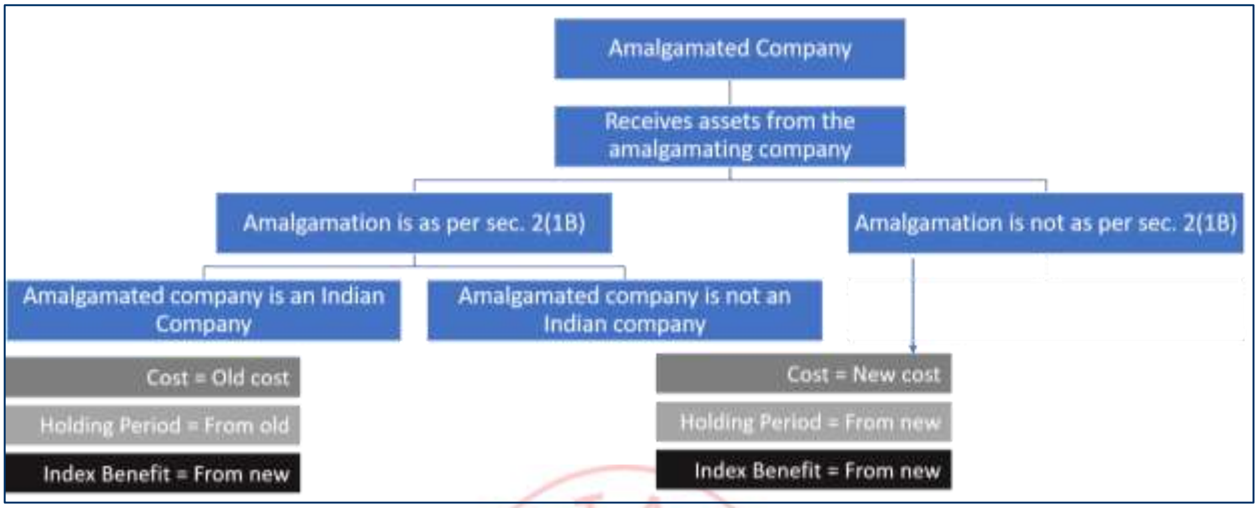
☸ **Value of asset transferred as stock in trade**

- Where an asset [not being an asset referred to in sec. 45(2)] which becomes the property of an amalgamated company under a scheme of amalgamation, is sold by the amalgamated company as stock-in-trade of the business carried on by it, the cost of acquisition of the said asset to the amalgamated company in computing the profits and gains from the sale of such asset shall be the cost of acquisition of the said asset to the amalgamating company, as increased by the cost, if any, of any improvement made thereto, and the expenditure, if any, incurred, wholly and exclusively in connection with such transfer by the amalgamating company [Sec. 43C(1)]

  Taxpoint: The provision is applicable where following asset of the amalgamating company is taken over by the amalgamated company as stock-in-trade at revalued price:

  a) Stock-in-trade
  b) Capital asset converted to stock-in-trade
  c) Capital asset

- Sec. 43C is also applicable where an asset becomes the property of the assessee on the total or partial partition of HUF or under a gift or will or irrevocable trust.



☸ **<u>Set-off and carry forward of business loss and unabsorbed depreciation [Sec. 72A]</u>**

<u>Applicable</u>

1. There has been an amalgamation of a company owning -
    - an industrial undertaking; or
    - a ship; or
    - a hotel,

   with another company; or

   <u>Taxpoint</u>: Industrial undertaking means an undertaking engaged in—
    - manufacture or processing of goods; or
    - manufacture of computer software; or
    - business of generation or distribution of electricity or any other form of power; or
    - business of providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services; or
    - mining; or
    - the construction of ships, aircrafts or rail systems.
2. There has been amalgamation of a banking company with a specified bank.
3. There has been amalgamation of one or more public sector company or companies with one or more public sector company or companies; or
4. There has been amalgamation of an erstwhile public sector company with one or more company or companies, if the share purchase agreement entered into under strategic disinvestment restricted immediate amalgamation of the said public sector company and the amalgamation is carried out within 5 years from the end of the previous year in which the restriction on amalgamation in the share purchase agreement ends

- *"Erstwhile public sector company" means a company which was a public sector company in earlier previous years and ceases to be a public sector company by way of strategic disinvestment by the Government;*
- *"Strategic disinvestment" means sale of shareholding by the Central Government or any State Government in a public sector company which results in reduction of its shareholding to below 51% along with transfer of control to the buyer.*

Conditions to be satisfied

The accumulated loss shall not be set off or carried forward and the unabsorbed depreciation shall not be allowed in the assessment of the amalgamated company unless:

(a) The amalgamating company—

(i) has been engaged in the business, in which the accumulated loss occurred or depreciation remains unabsorbed, for three or more years;

(ii) has held continuously as on the date of the amalgamation at least ¾th of the book value of fixed assets held by it two years prior to the date of amalgamation.

(b) The amalgamated company—

(i) holds continuously for a minimum period of 5 years from the date of amalgamation at least ¾th of the book value of fixed assets of the amalgamating company acquired in a scheme of amalgamation;

(ii) continues the business of the amalgamating company for a minimum period of 5 years from the date of amalgamation;

(iii) fulfils such other conditions* as may be prescribed to ensure the revival of the business of the amalgamating company or to ensure that the amalgamation is for genuine business purpose.

* Conditions for carrying forward or set-off of accumulated loss and unabsorbed depreciation allowance in case of amalgamation [Rule 9C]

(*a*) The amalgamated company, owning an *industrial undertaking* of the amalgamating company by way of amalgamation, shall achieve the level of production of at least 50% of the installed capacity (i.e., the capacity of production existing on the date of amalgamation) of the said undertaking before the end of 4 years from the date of amalgamation and continue to maintain the said minimum level of production till the end of 5 years from the date of amalgamation.

Provided that the Central Government, on an application made by the amalgamated company, may relax the condition of achieving the level of production or the period during which the same is to be achieved or both in suitable cases having regard to the genuine efforts made by the amalgamated company to attain the prescribed level of production and the circumstances preventing such efforts from achieving the same.

(*b*) The amalgamated company shall furnish to the Assessing Officer a certificate in Form No. 62, duly verified by an accountant, with reference to the books of accounts and other documents showing particulars of production, along with the return of income for the assessment year relevant to the previous year during which the prescribed level of production is achieved and for subsequent assessment years relevant to the previous years falling within five years from the date of amalgamation.

Treatment

- The accumulated business (non-speculative) loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or, as the case may be, allowance for depreciation of the amalgamated company for the previous year in which the amalgamation was effected, and other provisions of this Act relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.
- In a case where any of the conditions are not complied with, the set off of loss or allowance of depreciation made in any previous year in the hands of the amalgamated company shall be deemed to be the income of the amalgamated company chargeable to tax for the year in which such conditions are not complied with.

Deduction of expenses incurred in case of amalgamation or demerger [Sec. 35DD]

Applicable to: An Indian company

Conditions

a) Assessee has incurred certain expenditure wholly & exclusively for the purpose of amalgamation or demerger.
b) No deduction has been claimed for such expenses under any other section.

Quantum of deduction: 1/5th of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.

Other Provisions

Capital Expenditure on Scientific Research [Sec. 35(5)]: Provisions of sec. 35 shall apply to the amalgamated company, as it would have been applied to the amalgamating company, if the latter had not transferred such asset.

Telecom or spectrum licence: The amalgamated company or resulting company (being Indian company) as the case may be shall be entitled to claim deduction u/s 35ABB (or sec. 35ABA) for the residual period as if the amalgamating or demerged company had not transferred the licence.

Amortisation of Preliminary Expenses: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) shall be entitled to claim deduction u/s 35D for the residual period as if the amalgamation or demerger had not taken place.

Amortisation of expenditure incurred under VRS: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) as the case may be, shall be entitled to claim deduction u/s 35DDA for the residual period as if the amalgamation or demerger had not taken place.

In nutshell, we can say that where amalgamated company is an Indian company, subject to other conditions, amalgamation is tax neutral.

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.

Ind AS 12 Income Taxes

In this issue we shall discuss on Ind AS 12 Income Taxes.

Accounting for income taxes is made in financial accounting by recognizing the following items in the financial statements

(A) Tax expenses, which is the amount of tax based on the accounting profit. It is divided into two parts:

i. Current Tax. It is based on taxable profits determined in accordance with taxation laws.

ii. Deferred Tax. It is the change in deferred tax liabilities/assets.

Deferred tax expense is the increase in deferred tax liability (decrease in deferred tax asset). Deferred tax income is the decrease in deferred tax liability (increase in deferred tax asset).

(A) Deferred tax liabilities/assets: They arise due to temporary differences in recognition of assets/ liabilities between carrying amount (accounting treatment) and tax base (tax treatment). For example, if 80% depreciation is allowed in the first year and 20% in the second year under tax treatment for an asset acquired at cost of Rs. 200000 (with no residual value) and 25% depreciation (SLM) is charged under accounting treatment, there arise a temporary difference. At the end of the first year after depreciation the carrying amount of the asset is cost less 25% = Rs.150000, but the Tax Base of the asset (its value for tax purpose) is Rs.40000 after 80% depreciation. Thus, temporary difference amounts to Rs.110000 (150000 – 40000). If applicable tax rate is 30%, the deferred tax liability amounts to Rs.33000 (30%*temporary difference), and deferred tax is the increase in deferred tax liability which also is Rs.33000.

Temporary difference is classified into two groups: (i) Taxable temporary differences having effect on deferred tax liabilities and (ii) Deductible temporary differences having effect on deferred tax assets.

(B) Current tax liabilities and current tax assets: Unpaid current tax is shown as current tax liability and prepaid or excess tax paid is shown as current tax asset.

At this point we may define the terms used so far.

Accounting Profit is profit or loss for a period before deducting tax expense.

Taxable Profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Tax Expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Current Tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred Tax Liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred Tax Assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences.

Tax Base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

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Temporary Differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Case 1 (deferred tax liability)

A plant is acquired at `1,50,000 with life of 3 years, no residual value and Depreciation chargeable at SLM for accounting purpose. For tax purpose 100% depreciation is admissible in the first year. Before depreciation accounting profits are same as before depreciation taxable profits for the years as stated below:

Year	1	2	3
Accounting profits before depreciation	**1,80,000**	**2,00,000**	**1,60,000**

Compute for all the years:

(i) Tax Base

(ii) Taxable Temporary Difference

(iii) Deferred Tax Liability

(iv) Deferred Tax Expense (income)

(v) Current Tax Expense, and

(vi) Tax Expense.

Answer: (Amount in ₹ `)

Year	0	1	2	3
a. Plant	1,50,000			
b. Depreciation		50,000	50,000	**50,000**
c. Carrying amount after depreciation		1,00,000	50,000	**0**
d. Depreciation for taxpurpose		1,50,000	0	**0**
e. Tax base (value for tax purpose)	a - d	0	0	**0**
f. Taxable temporary difference	c - e	1,00,000	50,000	**0**
g. Deferred tax liabilities recognised in balance sheet@30% on temporary differences		30,000	15,000	**0**
h. Deferred tax expense (income) recognised in SOPL (change in deferred tax liabilities)	g(t) - g(t-1) where t is year	30,000	(15,000)	**(15,000)**
i. Accounting profits before depreciation		1,80,000	2,00,000	**1,60,000**
j. Accounting profits after depreciation	i - b	1,30,000	1,50,000	**1,10,000**
k. Taxable profits	i - d	30,000	2,00,000	**1,60,000**
l. Current tax (30%*k)		9,000	60,000	**48,000**
h. Tax expenses (j*30%)	**h+1**	**39,000**	**45,000**	**33,000**

Case 2 (deferred tax asset)

X Ltd. created a provision for Gratuity for Rs. 20000. Its accounting profit is Rs. 1000000 and taxable profit is Rs. 1200000 since provision for gratuity is not admissible. Tax Rate is 30%.

Compute:

(i) Tax base

(ii) Deductible Temporary Difference

(iii) Deferred Tax Asset

(iv) Deferred Tax Income

(v) Current Tax Expense, and

(vi) Tax Expense.

Solution:

Particulars	Rs.
Carrying amount of Liability for Gratuity	200000
Tax base of Liability for Gratuity (since provision is not admissible)	0
Deductible temporary difference (200000 – 0)	200000
Deferred tax asset (200000*30%)	60000
Deferred tax income (increase in deferred tax asset)	60000
Accounting Profit	1000000
Taxable Profit	1200000
Current Tax expense (1200000*30%)	360000
Tax Expense (Current Tax – Deferred Tax Income = 360000 – 60000) or Tax based on Accounting Profit (1000000*30%)	300000

GROUP: 4, PART: 18

INDIRECT TAX

LAWS & PRACTICE - (ITP)

CMA Rana Ghosh
Chief Executive Officer,
Institution of Estate Managers & Appraisers
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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 MCQ, students can refresh themselves about

- Valuation of export goods
- Rate of export duty
- Domestic Tariff Areas
- Payment of import duty
- Deemed export
- Custom House Agent
- Coastal goods & departure permission
- High seas sale transaction
- Special warehousing

Indirect Tax

Choose the correct option from the followings –

1. Which of the following will not be considered as an important factor for valuation of export goods.

(a) Duty Drawback
(b) Export incentives like DEPB License
(c) Refund of IGST credit, if any
(d) Payment of duty on export, if any

2. Which of the following is not part of the Computed Value Method –

(a) local market price of the export goods may not be the only basis for determining the value of export goods
(b) cost of production, manufacture or processing of export goods
(c) charges, if any, for the design or brand
(d) An amount towards profit

3. What is the rate of export duty for Steel product

(a) 10%
(b) 15%
(c) 20%

(d) 25%

4. Out of the following condition which is not applicable for determining Transaction value of identical goods.

(a) Identical goods can be compared with the other goods of the same country from which import takes place

(b) These goods must be valued at a price which is produced by the same manufacturer

(c) If price is not available then the price of other manufacturers of the same country is to be taken into account

(d) If more than one value of identical goods is available, highest of such value should be taken

5. As per the Customs Act Domestic Tariff Area means –

(a) the whole of India including the territorial waters and continental shelf.

(b) the whole of India including the territorial waters and continental shelf and also the area of SEZ,EOU, EHTP,STP, BTP.

(c) the whole of India including the territorial waters and continental shelf but does not include the area of SEZ,EOU, EHTP,STP, BTP.

(d) the whole of India including the territorial waters and continental shelf except Customs areas.

6. As per the Customs Act for Warehousing what type of Bill Entry to be submitted –

(a) Form I (white)

(b) Form II (yellow)

(c) Form III (green)

(d) Form IV (blue)

7. Under Section 47(2) of the Customs Act Importer shall have to make payment of duty on the same day in case of

(a) Self-assessed Bill of Entry

(b) Re-assessment of Bill of Entry

(c) Provisional assessment of Bill of Entry

(d) Specific duty assessed by the authority

8. Time Limit for submission of Import General Manifest or Import Report by Vehicle (Land Customs Station)

(a) Before arrival of the vehicle

(b) Immediately after arrival of the vehicle

(c) Within 12 hours of arrival

(d) Within 24 hours of arrival

9. As per the Foreign Trade Policy which of the following transaction cannot be considered as deemed exports.

(a) Sale of goods to units situated in Export Oriented Units, Software Technology Park, and Electronic Hardware Technology Park etc.

(b) Sale of capital goods to pharmaceutical plants

(c) Sale of goods to United Nations Agencies

(d) Sale of goods to projects financed by bilateral Agencies, etc

10. Which of the following will not be considered as Custom House Agent

(a) Customs Clearing Agent

(b) Warehouse Forwarding Agent

(c) Customs Broker

(d) Shipping and Forwarding Agent

11. As per the Customs Act which of the following will not be relevant in case of Container freight Station (CFS)

(a) It is a place where containers are aggregated for onwards movement to or from the ports.

(b) It is a place where containers are stuffed, unstuffed and aggregation/ segregation of cargo takes place.

(c) CFS is treated as an extension of a port/ICD/air-cargo complex.

(d) Movement of shipment by road.

12. As per the Customs Act, 1962 Goods required as stores on any foreign going vessel or aircraft are permitted to be exported free of export duty. In this regard which of the following need not to be satisfied –

(a) Goods should have been produced or manufactured in India

(b) The quantity shall be determined by the proper officer

(c) The basis for such determination will be the size of conveyance, men on board (passengers and crew) and length of voyage

(d) Goods produced in EOU and SEZ will be considered

13. As per the Customs Act Coastal Goods means

(a) Goods imported entered within 200 nautical miles but not reported to Customs Station

(b) Ship with goods exported left the custom's port not crossed the limit of 200 nautical miles
(c) Goods, other than imported goods, transported in a vessel from one port in India to another
(d) Ships awaiting clearance from Customs for loading / unloading

14. For Coastal goods the master of a vessel should fulfil following conditions for getting "departure permission"- in this context which is incorrect

(a) the master of the vessel has to answer all the questions put to him.
(b) all charges and penalties due in respect of that vessel has been paid.
(c) Penalty is leviable on master of the vessel i.e. if the goods on a vessel are not landed or short landed, penalty is leviable which is equal to the export duty leviable had they been exported.
(d) the provisions of this Chapter and any rules and regulations relating to coastal goods and vessels carrying coastal goods have been complied with.

15. Which of the following is the drawback of High Seas Sale transaction –

(a) Goods are available at short time to final buyers
(b) Also instead of buying entire shipment small quantities also can be bought for final buyers
(c) Loading of pricing for Customs assessment
(d) First buyer can buy large quantity of goods at cheap / reasonable price and sale at best price to final buyers

16. An importer shall execute a bond binding himself in a sum on such goods to cover all duties and interest if any payable.

(a) equal to the amount of the duty assessed
(b) equal to twice the amount of the duty assessed
(c) equal to thrice the amount of the duty assessed
(d) as determined by the Customs Officials

17. Which of the below mentioned items shall not be deposited in Special Warehouse

(a) Gold, silver, other precious metals and semi-precious metals and articles thereof
(b) Supply to DFS (Duty Free Shops) in a customs area
(c) Supply as stores to vessels/aircrafts under Chapter XI of the Customs Act, 1962
(d) Supply to foreigner having nationality of other country.

18. As per section 61 of the Customs Act, 1962 period of warehousing for goods other than EOU

(a) Six months
(b) One year
(c) Eighteen months

(d) Two year

19. If the importer after warehousing the goods does not clear within 90 days from the date of deposit of the goods, the interest is to be paid on the value of total duty payable.

(a) @ 10% p.a.

(b) @ 15% p.a

(c) @ 18% p.a

(d) @ 20% p.a

20. Under the Customs Act, 1962 the interest can be waived by C.B.E. & C. part or full interest under exceptional circumstances without any charges

(a) Up to one crore

(b) Up to two crore

(c) Beyond two crores up to four crores

(d) Without any upper limit beyond Rs 2 crores

ANSWERS

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

GROUP: 4, PART: 19,

COST & MANAGEMENT
AUDIT – (CMAD)

CMA S S Sonthalia
Practicing Cost Accountant
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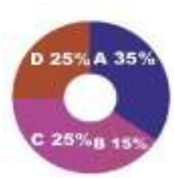
Your Preparation Quick



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

M/s Vanish Detergent (P) Ltd. engaged in the business of manufacturing of soaps and detergents (Organic / In-Organic Chemical Surface-Active agents). Company is manufacturing four type products and the details of items manufactured and their turn over for the financial year 2021-22 is given below: -

Si.No.	Product	CTA Code	Turn Over (Rs.in Crore)
1	Surf Excel	3402-5000	33.00
2	Wheel	3402-5000	25.00
3	Sunlight	3402-5000	20.00
4	Domex	3808-9400	32.00
	Total Turnover		**110.00**

The CTA code of all the three products i.e. Surf excel, Wheel & Sunlight (i.e. 3402-5000) comes under the Table B of the rule 3 of Companies (Cost Records and Audit) Rule, 2014. (CCRAR, 2014). However, CTA code of Domex i.e. 3808-9400 is not covered under table B. As such the total turnover become less than 100.00 crores, excluding turnover from Domex.

As a cost accountant, the managing director of the company seeks your opinion, whether the provisions of CCRA, 2014 with regard to cost audit with respect to all its products, is applicable, particularly in view of the fact that none of the products being manufactured by the company is having turnover in excess of Rupees 35 crore and overall turnover become less than 100.00 crores excluding Domex. Further whether the company is required to maintain the cost records with respect to Domex, which is not covered in Table B of the Rule 3. Please give your opinion with reference to the provisions of the Companies act, 2013 and Companies (Cost Record and Audit) Rule, 2014 regarding applicability of cost audit and maintenances of cost records to the company.

Reply Letter

Date: 02nd December, 2022

To

The Managing Director,

M/s Vanish Detergent (P) Ltd.

Bhubaneswar, Odisha

Subject: Opinion with regard to the applicability of Cost Audit and maintenances of cost records for the products being manufactured by the company for the financial Year 2022-23.

Dear Sir,

In order to arrive at the conclusion, it is necessary to understand the provisions of the Companies act, 2013 and the Companies (Cost Record and Auditor) Rule, 2014.

As per Sec. 148 sub-section 1 of the Companies act, 2013, Cost Audit is applicable to such class of companies engaged in the production of such goods or providing such services as may be prescribed. Further particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies.

The Central Govt. in exercise of the powers conferred by sub-sections (1) and (2) of section 469 read with section 148 of the Companies Act, 2013, issued the rules called as Companies (Cost Records and Audit) Rules, 2014.

The Rule 3 of CCRAR, 2014 with respect to maintenance of cost record is as follows:

"For the purpose of sub-section (1) of Section 148 of the Act, the class of companies, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in the Table A (Regulated Sector) and Table- B (Non-Regulated Sector), having an overall turnover from all its products and services of Rupees Thirty five crore or more during the immediately preceding Financial year, shall include cost records for such products or services in their books of account."

Further the Rule 4 sub-rule 2 of CCRAR, 2014 with respect to applicability of Cost Audit is as follows:

"Every company specified in Table (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rupees one hundred

crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is Rupees thirty-five crore or more."

In view of the above, my opinion on the issues raised in your query is as follows: -

1. M/s Vanish Detergent (P) Ltd. is manufacturing four products and the combined turnover of all the products put together comes to Rupees 110 crore and excluding Domex all the three products come under the CTA code mentioned under Table (B) of the Rule 3 of CCRAR, 2014.

Therefore, carefully reading the Rule 4 sub-rule 2 which says, from ***all its products and services during the immediately preceding financial year is Rupees one hundred crore or more***, it is clear that the Company is fulfilling the criteria of turnover i.e. Rs. 100.00 crores, as total turnover from all its product is Rs. 110.00 crores. The Rule do not distinguish between the products whether cover in CTA cod or not.

2. Three out of four products i.e. for Surf Excel, Wheel and Sunlight are covered under the Table B of the Rule 3 of CCRAR, 2014, and are having the same CTA Code i.e. 3402-5000. So in view of the same CTA Code, they will be treated as one product and their combined turnover is Rs. 78.00 crores, with is more than Rs. 35.00 crores. Hence this also meets the second condition of individual product turnover of Rs. 35.00 crores.

3. The provisions with regard to maintenance of Cost record for the product Domex is not applicable as it is not under Table B of CCRA, 2014.

<u>Conclusion:</u>

After considering the provisions of the Companies Act, 2013 read with Companies (Cost Records and Audit) Rule, 2014, and as the issues explained above, it can be concluded that

a. M/s Vanish Detergent (P) Ltd. need to maintain the Cost records as well as subject to Cost Audit for the products i.e. Surf, Wheel and Sunlight as per the provision CCRAR, 2014 for the financial year 2022-23.

b. As the product Domex is not covered under Table B of CRRAR, 2014, there is no need for maintenance of Cost records and subsequent Cost Audit for Domex for the financial year 2022-23.

GROUP: 4, PART: 20,

STRATEGIC

PERFORMANCE MANAGEMENT AND BUSINESS VALUATION – (SPBV)

Dr. Ashish Kumar Sana
Professor,
Dept. of Commerce,
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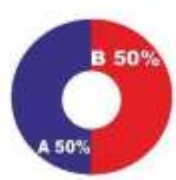
Your Preparation Quick



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

Brand Valuation

According to American Marketing association, brand means a name, term, sign, symbol or design or group of sellers and to differentiate them from those of competitors. For example, the logo and name Airtel, together represent the Brand of Airtel Ltd., a telecom company.

Corporate Branding represents the Brand of a corporate house, e. g., Reliance Industries Ltd. has their corporate brand name as RIL with the image of a Lamp drawn in a particular style. Over and above this brand all their products have separate brand name, e. g., Vimal is the brand name of their suiting and shirting cloths. Thus, corporate branding can be taken to mean strategic exercise by managerial decision making of creating, developing, maintaining, conveying to market and monitoring the identity, image and ownership of a product etc.

Objectives of Corporate Branding

1. **Corporate Identity**: Brands help corporate houses to create and maintain identity for them in the market. This is chiefly facilitated by brand popularity and the eventual customer loyalty attached to the brands.
2. **Total Quality Management (TQM):** By building brand image, it is possible for a body corporate to adopt and practice TQM. Brands help in building lasting relationship between the brand owner and the brand user. Customer Preference: Interaction between a specified group of products and services and a specified group of loyal customers creates a psychological lasting impression in the mind of those customers. Branding gives them advantage of status fulfilment.
3. **Market Strength**: By building strong brands, firms can enlarge and strengthen their market base. This would also facilitate programmes, designed to achieve maximum market share.
4. **Market Segmentation**: By creating strong brand values, companies classify market into more strategic areas on a homogeneous pattern of efficient operations. It enables firms to focus on target group of customers to meet competition.
5. **Quality, Governance and Ethical Values**: A corporate house wants to convey through their brand about their longstanding pursuit for quality, governance and ethical values.

Factors that have influence on brand valuation

- Cost of acquisition of brand,
- Expenses incurred on nurturing a home grown brand,
- Earning power of the brand,
- Product life cycle,
- Separating one brand from other less important value drivers,
- Intrinsic strength of the people and process handling the brand,
- Impact of other new brands in the market,
- Accuracy in projecting the super or extra earnings offered by a brand and the rate of discounting cash flows
- Cost of withdrawing or rejecting the brand.

Brand Valuation

1. Value of Acquired Brand

A purchased brand is one, which is acquired from other existing concerns. The acquiring company may acquire only the brand names.

The value of acquired brands is given below:

Brand Value = Price paid for Acquisition

On the other hand, a company may acquire an existing business concern along with its brands. It happens in case of mergers and acquisitions. The sum involved in these transactions provides an indication of the financial value of brands.

In this case;

Brand Value = Purchase consideration(X)- Net assets acquired(Y)

2. Value of Self- Generated Brands

Important methods for valuation of self-generated brands are discussed below;

I. **Historical Cost Model**: Under historical cost model actual expenses incurred in creation, maintenance and growth of corporate brands are taken into consideration. The value of corporate brands is computed as follows:

Brand Value = Brand Development Cost + Brand marketing and Distribution Cost + Brand promotion cost including advertising and other costs.

II. **Replacement Cost Model:** Under replacement cost model brands are valued at the costs which would be required to recreate the existing brands. The method is based on the assumption that the existing brands can be recreated exactly by new brands. It is the opportunity cost of investment made for the replacement of the brand.

Brand Value = Replacement Cost of Brand.

III. Market Price Model: Probable value that a company would fetch by selling its brand is taken as the value of the brand. Brand value is given by:

Brand Value = Net realisable value

IV. Present Value Model: According to present value model, the value of a brand is the sum total of present value of future estimated flow of brand revenues for the entire economic life of brand plus the residual value attached to the brand. The model is also called Discounted Cash Flow model which has wisely been used by considering the year wise revenue attributable to the brand over a period of 5, 8 or 10 years. The discounting rate is the weighted average cost of capital. The residual value is estimated on the basis of a perpetual income, assuming that such revenue is constant or increased at a constant rate.

$$\text{Brand value} = \frac{R_t}{(1+r)^t} + \frac{\text{Residual value}}{(1+r)^N}$$

Where, R_t = Anticipated revenue in year t, attributable to the brand

r = Discounting rate

Multiple Choice Questions (MCQ)

1. Net Operating Profit After Taxes (Capital Employed x the Cost of Capital) is called.

(a) Book Value Added

(b) Market Value Added

(c) Economic Value Added

(d) None of the above

2. Which of the following is not a human –capital related intangible asset?

(a) Trained workforce

(b) Employment agreements

(c) Union contracts

(d) Design patent

3. Which one of the following is related to the DCF model for evaluating brand values sources of failure?

(a) Anticipation of cash flow

(b) Choice of period

(c) Discounting rate

(d) All of the above

4. Estimated fair value of an asset is based on the _______________ value of operating cash flows.

(a) Current

(b) Discounted

(c) Future

(d) None of the above

5. Super profit is the excess of future maintainable profits over _____________ expected profits.

(a) Normally

(b) Abnormally

(c) Estimated

(d) Computed

Answer Hints:

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

Example 1

The following financial share data pertaining to Fitch Ltd. an IT company is made available to you:

(Amount in ₹ Crores)

Year ended March 31st	2021	2020	2019
EBIT (₹)	696.03	325.65	155.86
Non-branded Income (₹)	53.43	35.23	3.46
Inflation compound factor @ 8%	1.000	1.087	1.181
Remuneration of Capital	5% of average capital employed		
Average capital Employed (₹)	1112.00		
Corporate Tax Rate	35%		
Capitalization Factor	16%		

You are required to calculate the Brand Value for Techno Ltd.

Answer

Fitch Ltd.

Computation of Brand Value

(Amount in ₹ Crores)

Year ended March 31st	2021	2020	2019
EBIT	696.03	325.65	155.86
Less: Non-brand Income	53.43	35.23	3.46
Adjusted Profits	642.60	290.42	152.40
Inflation Compound Factor @ 8%	1.000	1.087	1.181
Present Value of Profits for the brand	642.60	315.69	179.98
Weight age Factor	3	2	1
Weight age Profits	1927.80	631.38	179.98
Weight Average Profits= $\frac{\mathbf{1927.80+631.38+179.98}}{\mathbf{3+2+1}}$	456.53		
Remuneration of Capital [5% of Average capital employed] (i.e. 1112×5%)			
Brand Related	400.93		
Corporate tax @ 35%	140.33		
Brand Earnings	260.60		
Capitalization Factor	16%		

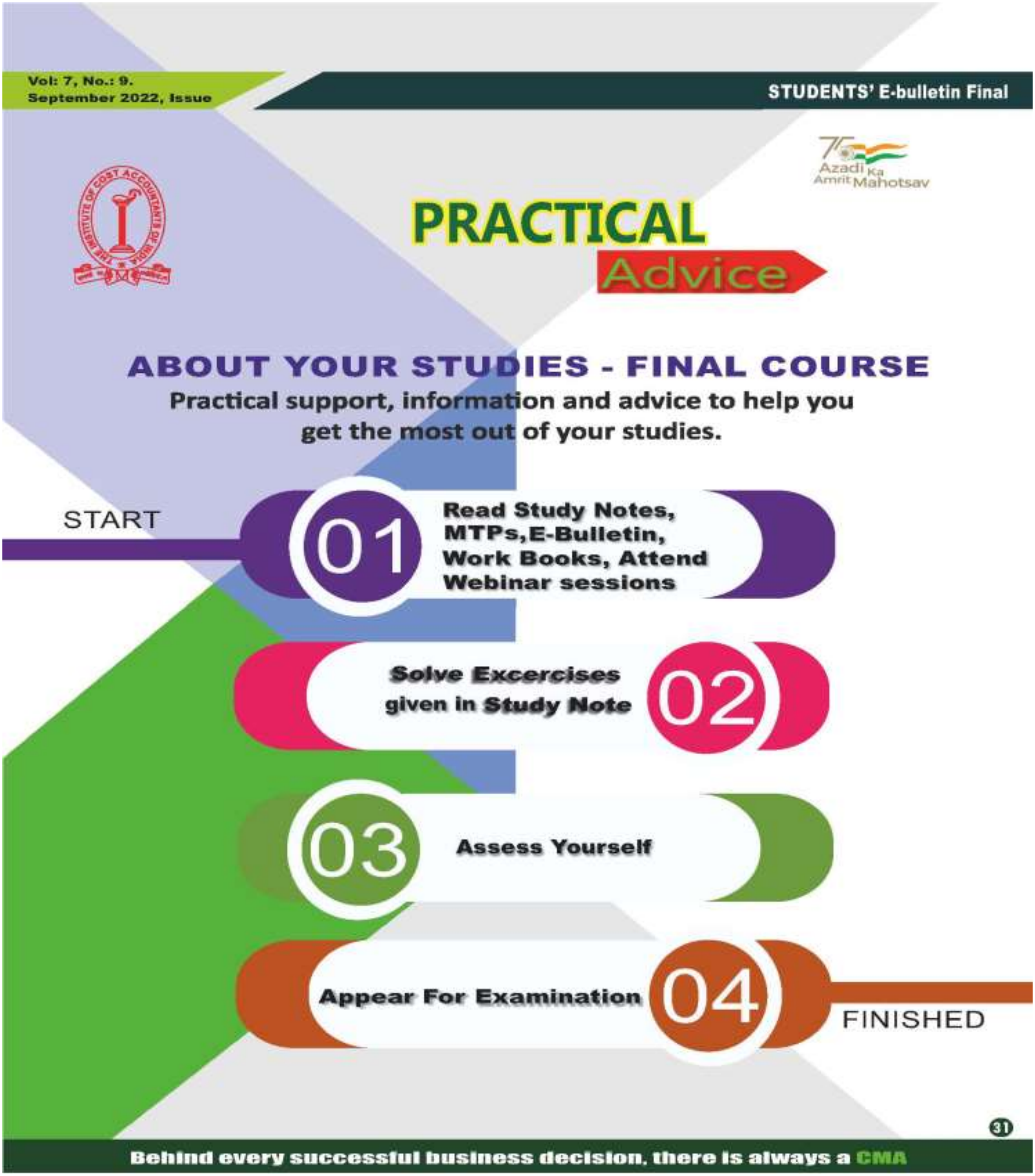
Brand Value = (Return / Capitalization Rate)

=₹260.60 / 0.16 = ₹1628.75 Crore

Examination Time Table

Day & Date	Final Examination Syllabus-2016 (Time: 02:00 P.M. to 05:00 P.M)	
	(Group – I)	(Group – II)
Thursday, 5th January, 2023	Corporate Laws & Compliance (P-13)	....
Friday, 6th January, 2023	....	Corporate Financial Reporting (P-17)
Saturday, 7th January, 2023	Strategic Financial Management (P-14)	....
Sunday, 8th January, 2023	....	Indirect Tax Laws & Practice (P-18)
Monday, 9th January, 2023	Strategic Cost Management – Decision Making (P-15)	....
Tuesday, 10th January, 2023	....	Cost & Management Audit (P-19)
Wednesday, 11th January, 2023	Direct Tax Laws and International Taxation (P-16)	....
Thursday, 12th January, 2023	....	Strategic Performance Management and Business Valuation (P-20)

Practical Advice



Submissions

Vol: 7, No.: 9.
September 2022, Issue

SUBMISSIONS

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:
e-mail: studies.ebulletin@icmai.in
website: http://www.icmai.in

Message form Directorate of Studies

Dear Students,

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), and we also have conducted 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.

You must be aware that India is celebrating Azadi Ka Amrit Mahotsav, which is an initiative of the Government of India to celebrate and commemorate 75 years of independence and the glorious history of its people, culture and achievements. Along with pan India, your Institute has also observed and took part in various meaningful activities throughout the year. We also expect that our students should also take part in the development of the nation and make the country proud.

"Freedom has only one motto, may our country be happy and prosperous" ....

let you all observe the message cited above.

- 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


THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
Statutory Body under an Act of Parliament
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CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
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Few Snapshots

Few Snapshots

CMA Vijender Sharma elected as President and CMA Rakesh Bhalla as Vice President of the Institute for the year 2022-23.

CMA Vijender Sharma elected as President and CMA Rakesh Bhalla as Vice President of the Institute for the year 2022-23.

CMA Vijender Sharma, President of the Institute along with CMA B.B. Goyal, Former Addl Chief Advisor (Cost), MoF, GoI extending greetings to Shri Gyanesh Kumar, IAS, Secretary to the Government of India, Ministry of Cooperation on 6th December, 2022.

CMA Vijender Sharma, President along with CMA Rakesh Bhalla, Vice President, CMA Biswarup Basu, Past President and CMA Kaushik Banerjee, Secretary of the Institute extending greetings to Shri Manoj Govil, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 29th November 2022.

CMA Vijender Sharma, President along with CMA Rakesh Bhalla, Vice President, CMA Biswarup Basu, Past President and CMA Kaushik Banerjee, Secretary of the Institute extending greetings to Shri Manoj Govil, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 29th November 2022.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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