2019
October
VOL: 4, NO.: 10,

TOLL FREE 18003450092 / 1800110910

150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

FOLLOW US ON

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
www.icmai.in
Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100

Behind every successful business decision, there is always a CMA

Message from The Chairman

CMA Biswarup Basu
Vice President & Chairman,
Training & Education Facilities (T& EF) Committee

CMA BISWARUP BASU
Chairman, T & EF Committee
Directorate of Studies

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
CMA BHAWAN, 12, SUDDER STREET, KOLKATA-700 016, India
Mobile : 79802 72019 / 98740 81422
Website : www.icmai.in

MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!

"Strength does not come from physical capacity. It comes from an indomitable will"- M.K.Gandhi

In his opinion the highest aim of education is the Self -realization. He used to say, "The end of all knowledge must be building up of character". In Gandhi's opinion character building is the most important among students. He believed basic Education is Education for life and through life.

He firmly believed that the goodness of the individual formed the constituent part of the goodness of the society. As the nation is Commemorating 150th Birth Anniversary of Mahatma Gandhi Ji likewise we too, in the Institute have celebrated it.

"A teacher who establishes rapport with the taught, becomes one with them, learns more from them than he teaches them. He who learns nothing from his disciples is, in my opinion, worthless. Whenever I talk with someone I learn from him. I take from him more than I give him".

The Directorate of Studies (D.O.S.) has come out with revised **work book** in some paper's where the amendments has taken place. As you are aware that study materials are continuously updated for incorporation of necessary amendments paper wise where those are extremely needed and also the updation is carried out in all the papers with the view of providing you the needed and relevant information. **Answers to Mock Test Papers (MTPs)** have started uploading and please keep watching on it.

The Directorate of Studies is restarting the **webinar session** and the calendar for the same will also be uploaded shortly. I am really thankful to all those academicians who are regularly updating your knowledge bank by extending their suggestions and input towards your all-round development. Please refer all those publications which will help to smoothen your preparation.

My good wishes are as always for all of you,

CMA Biswarup Basu
Vice President & Chairman, Training & Education Facilities and Placement Committee

Be a CMA, be a Proud Indian

150 YEARS OF CELEBRATING THE MAHATMA

"Behind every successful business decision there is always a CMA"

Vol: 4, No.: 10.
October 2019, Issue

YEARS OF CELEBRATING THE MAHATMA

CONTENTS

Vol: 4, No.: 10.
October 2019, Issue

150 YEARS OF CELEBRATING THE MAHATMA

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.

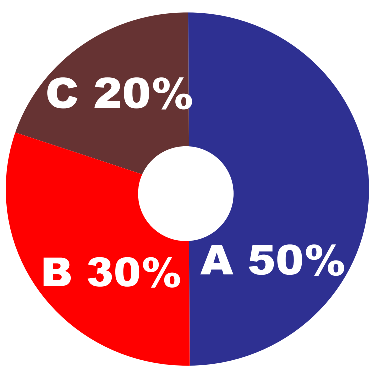
Vol: 4, No.: 10.
October 2019, Issue

Shri Subrata Kr. Roy
Company Secretary & Consultant
He can be reached at:
subrataoffice@rediffmail.com

GROUP: 3, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

Your Preparation Quick Takes



Syllabus Structure
A Companies Act **50%**
B Other Corporate Laws **30%**
C Corporate Governance **20%**

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.

Management of a Company

A company shall be managed by Board of Directors who would jointly be responsible for major decisions relating to the management of the company, within the powers under the CA and AA of the company

Doctrine of ultra vires: beyond authority: personal liability

Doctrine of indoor management : outsider not bound to know the internal structure and regulations

Doctrine of constructive notice: outsiders shall be deemed to have knowledge of facts /issues which are available in public domain or there is reasonable assumption that he had knowledge

Privity of management: company shall have adequate right to keep things private, unless legally bound to disclose:

lifting of corporate veil: if anything wrong is done, authorities shall investigate deep into internal affairs of the company.

The levels of managementis as follows.

Management power to be exercised by:	Type of Powers	Reference
Shareholders	Power not given/delegated to Board of Directors.	Section 180 of Companies Act,2013 and AOA.
Board of Directors	All powers of decision making about the company unless reserved for shareholders.	Section 179 of the companies Act, 2013
Chairman	Executive ,Non- executive :power of the company. Chairing the company meeting.	Section 104 of the companies Act, 2013
CMD	Exercises both Chairman & MD's power.	Chairman/CMD/MD shall perform subject to superintendence and control of the Board
Managing Director	Has substantial power of Management.	Section 196 of the companies Act, 2013
Whole-time Director	Full time employee and looks after specific functions of the company	

Type of Directors	Appointing Authority	Situation of Appointment	Tenure of office
First Director	Article of Association	At the time of registration	Upto first AGM
Additional Director	Board of Directors	In between two AGM	Till next AGM or last date on which AGM should have been held.

Director	Shareholder in AGM	Normal	To retire on the basis of seniority.
Alternate Director	Board of Directors	When the original Director is out of India for more than 3 months	Till return of the original director.
Independent Director	Shareholders in AGM	all listed or Paid up capital 10cr/turnover 100cr/outstanding loan, debenture, deposit >50cr.	1 term of 5 consecutive year and eligible for re-appointment after passing special resolution

Board Constitution

Board of directors in relation to a company means collective body of the directors of the company.Every company shall have a Board of Directors consisting of individuals as directors and shall have -

i. Private Company:- Minimum 2 , Maximum 15.
ii. Public Company:- Minimum 3 , Maximum 15.

A company may appoint more than 15 directors after passing special resolution.

Unless the articles provide for the retirement of all directors at every AGM, atleast 2/3rd of the total number of directors of a public company shall be eligible to retire by rotation.Out of such 2/3, 1/3 of the total number of directors shall actually retire by rotation in every AGM.Independent directors are to be excluded in calculating total number of rotational directors.Directors appointed by Central Govt.(CG), FIs/Banks shall also be excluded.

Women directors: The following class of companies shall appoint at least one women director:-
i. Every Listed Company.
ii. Every other public company having –
a) Paid-up share capital of Rs 10 crore or more ,or

Turnover of Rs 300 crore or more. The following class of companies shall appoint at least one director:-
Independent director: Every Listed Company.

ii. Every other public company having –

a) Paid-up share capital of Rs 10 crore or more ,or

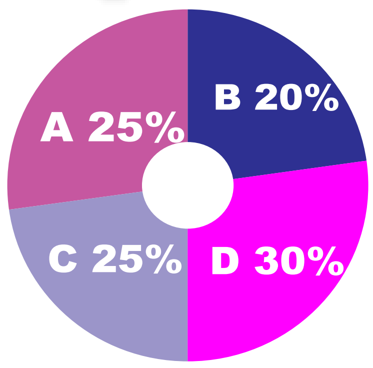
Turnover of Rs 300 crore or more.

Dr. Swapan Sarkar,
Assistant Professor
Department of Commerce,
University of Calcutta
He can be reached at:
swapansarkar22@gmail.com

GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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

Strategic Financial Management

Study Note 1: Investment Decision, Project Planning and Control

- **Concept of Long-Term Investment Decision**

A firm needs to invest its current funds most efficiently in long term activities in anticipation of an expected flow of future benefits over a series of years. The decision on the part of a firm to invest in long term projects is called capital budgeting decision (or long-term investment decision).

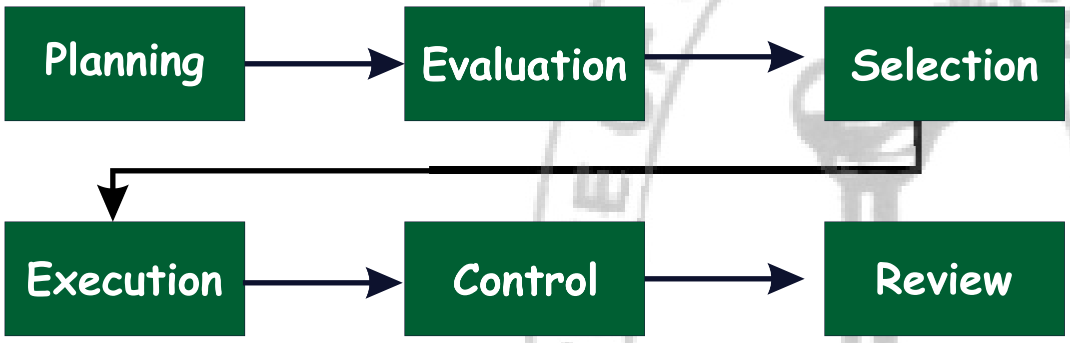
- **Importance of Long-Term Investment Decision**

Long term investment decisions are considered to be the most important decisions for any firm because of the following reasons.

a. These decisions involve large amount of fund
b. These decisions are irreversible
c. They involve long term in nature

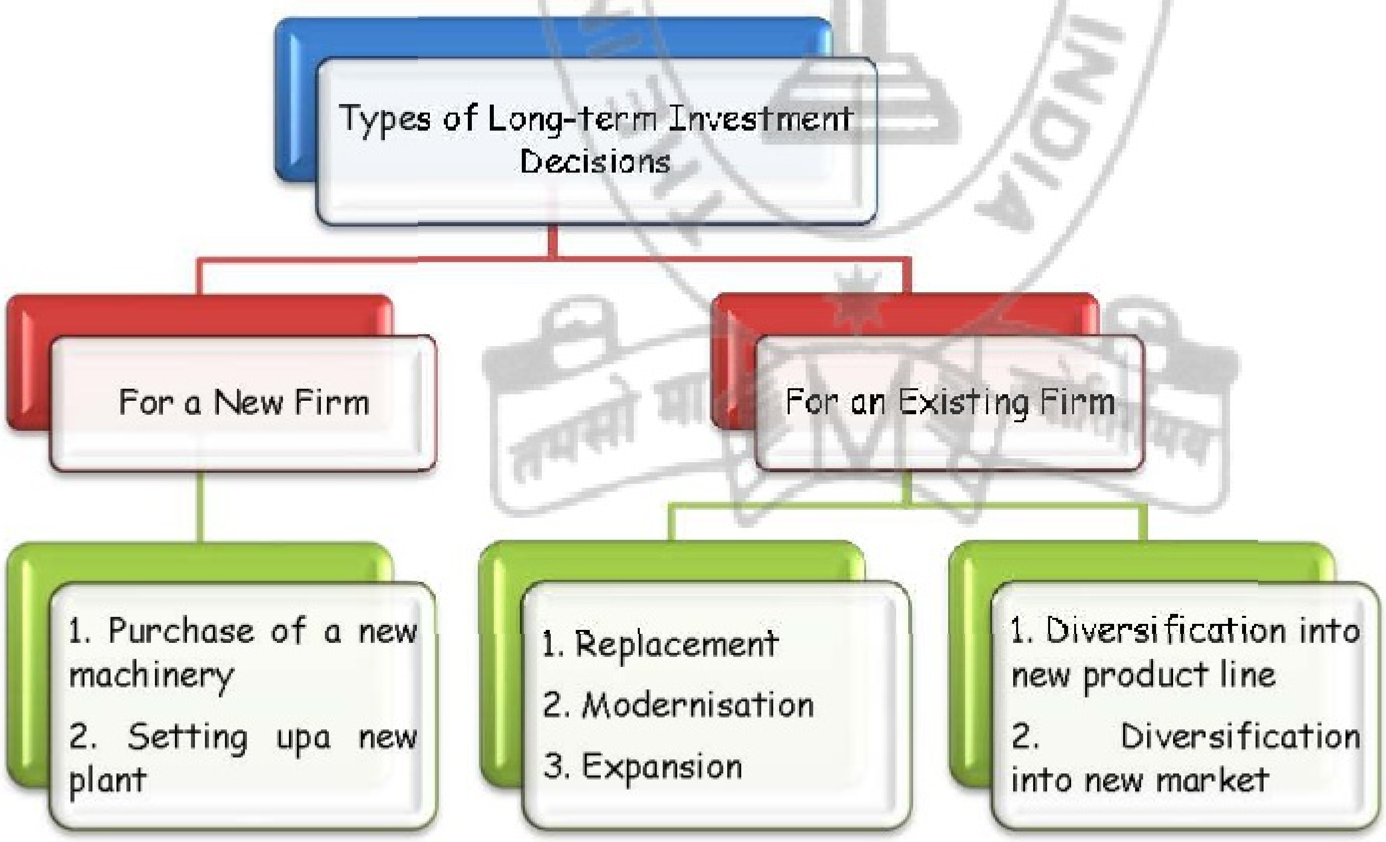
- **Process of Long-Term Investment Decision**

Long term investment decisions essentially involve a rigorous process as shown below.



- **Types of Long-Term Investment Decisions**

Long term investment decisions can be of the following types.



- **Estimation of a Project Cash Flow**

Determination of project cash flow involves consideration of the following three categories of cashflows.

Initial Cash Flow	Subsequent Cash Flow	Terminal Cash Flow
•Cost of the new asset including installation, transportation etc. (+) Change in working capital requirement (-) Salvage value of the old asset replaced (-) Tax savings for loss on sale of asset, or (+) Tax payable for profit on sale of asset	•CFAT = EBIT (1 - t) + Depreciation •Alternatively •CFAT = PAT after charging Interest Add: Depreciation Add: Interest Net of Taxes	•Salvage or Scrap Value + Tax Savings on Loss on Sale of Asset or (-) Tax Burden on Gain on Sale of Asset + Release of Working Capital

- **Project Appraisal Methods**

The methods or techniques of project appraisal can broadly be categorized into two groups – Non-Discounted Cash Flow Methods and Discounted Cash Flow.

Non-Discounted Cash Flow methods consider the cash flows over the life of the projects similarly. In other words, here it is assumed that cash flows in different time periods do not have any time value and hence are directly additive. These methods are again divided into two groups –

1. Accounting or Average Rate of Return (ARR)

2. Payback Period:
   a. Traditional Payback Period
   b. Payback Profitability
   c. Payback Reciprocal

As against the Non-Discounted Cash Flow methods, Discounted Cash Flowmethods assume that cash flow over different time periods are not directly additive as they involve time value of money. Hence, before making any analysis, one has to convert them into cash flows at the same parlance i.e. either compounded cash flows or discounted cash flows. Since conceptually the latter is more realistic, these methods first convert the cash flows into their present values and then conduct the analysis.

Depending upon a few other project specific considerations these methods can be as follows:

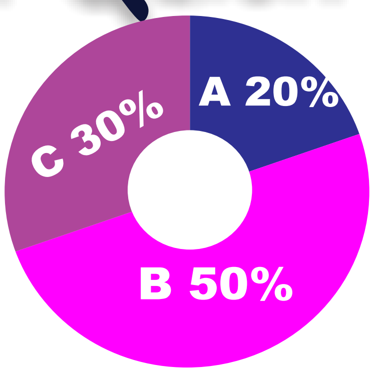
1. Discounted Pay Back Period
2. Net Present Value (NPV)
3. Profitability Index or Benefit Cost Ratio
4. Internal Rate of Return (IRR)
5. Modified NPV
6. Modified IRR
7. Terminal Value

GROUP: 3, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISIONMAKING (SCMD)

CMA (Dr.) Sreehari Chava
Cost & Management Consultant,
Nagpur, Maharastra,
He can be reached at:
sreeharichava@yahoo.co.in

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?

Net Work Diagram

01.00 Concept

Network analysis is the general name given to PERT and CPM techniques which can be used for planning, management and control of a project.

Network is a graphical representation of all the activities and events of a project arranged in a logical and sequential order. In this context, activity is the actual performance of the job which consumes resources like time, human resources, money, material, etc. An event refers to the starting point or completion point of a job.

02.00 PERT & CPM

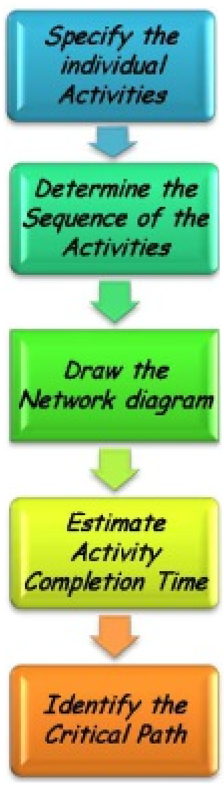
PERT: Project Evaluation and Review Techniques (PERT) is a method of analysing the tasks involved in completing a given project, especially the time needed to complete each task, and to identify the minimum time needed to complete the total project. It incorporates uncertainty by making it possible to schedule a project while not knowing precisely the details and durations of all the activities. It is more of an event-oriented technique rather than start - and completion-oriented, and is used more in projects where time is the major factor rather than cost. It is applied to very large-scale, one-time, complex, non-routine infrastructure and Research and Development projects.

CPM: Critical Path Method (CPM) or Critical Path Analysis (CPA) is a project management tool that helps determination of the minimum time needed to complete a project. The CPM:

(i) Sets out all the individual activities that make up a larger project.
(ii) Shows the order in which activities have to be undertaken.
(iii) Shows which of the activities can be taken up only when the other activities have been completed.
(iv) Shows which of the activities can be undertaken simultaneously, thereby reducing the overall time taken to complete the whole project.
(v) Pinpoints the time schedules needed for the specified resources, for example, a crane to be hired for a building site.

PERT and CPM are complementary tools. CPM employs one time estimate and one cost estimate for each activity. PERT may utilize three time estimates (optimistic, expected, and pessimistic) and costs for each activity. Although these are distinct differences, the term PERT is applied increasingly to all critical path scheduling.

03.00 Procedure of drawing a CPM Network



1. Specify the individual Activities: From the work breakdown structure, a listing can be made of all the activities in the project. This listing can be used as the basis for adding sequence and duration information in the subsequent steps.
2. Determine the Sequence of the Activities: Determine the sequence of performing the activities and arrange them in that order. Some activities are dependent on the completion of the others. A listing of the immediate predecessors of each activity is useful for constructing the network diagram.
3. Draw the Network diagram: Once the activities and their sequencing have been defined, the net work diagram can be drawn.
4. Estimate Activity Completion Time: The time required to complete each activity can be estimated using past experience or the estimates of knowledgeable persons. CPM is a deterministic model that does not consider variation in the completion time, so only one number is used for an activity's time estimate.
5. Identify the Critical Path: The critical path is the longest-duration path through the network. It is the path which does not have any spare (float or slack) time. The significance of the critical path is that the activities that lie on it cannot be delayed without delaying the project. Because of its impact on the entire project, critical path analysis is an important aspect of project planning. The critical path can be identified by determining the four parameters for each activity. The four parameters are Earliest Start, Earliest Finish, Latest Finish and Latest Start.

04.00 Rules for drawing the network diagrams

In a network diagram, arrows represent the activities and circles represent the events.

(i) The tail of an arrow represents the start of an activity and the head represent the completion of the activity.
(ii) The event numbered 1 denotes the start of the project and is called initial event.
(iii) Event carrying the highest number in the network denotes the completion of the project and is called terminal event.
(iv) Each defined activity is represented by one and only one arrow in the network.
(v) Determine which operation must be completed immediately before other can start.
(vi) Determine which other operation must follow the other given operation.
(vii) The network should be developed on the basis of logical, analytical and technical dependencies between various activities of the project.

05.01 Problem

A small maintenance project consists of the following twelve jobs whose precedence relations are identified with their node number:

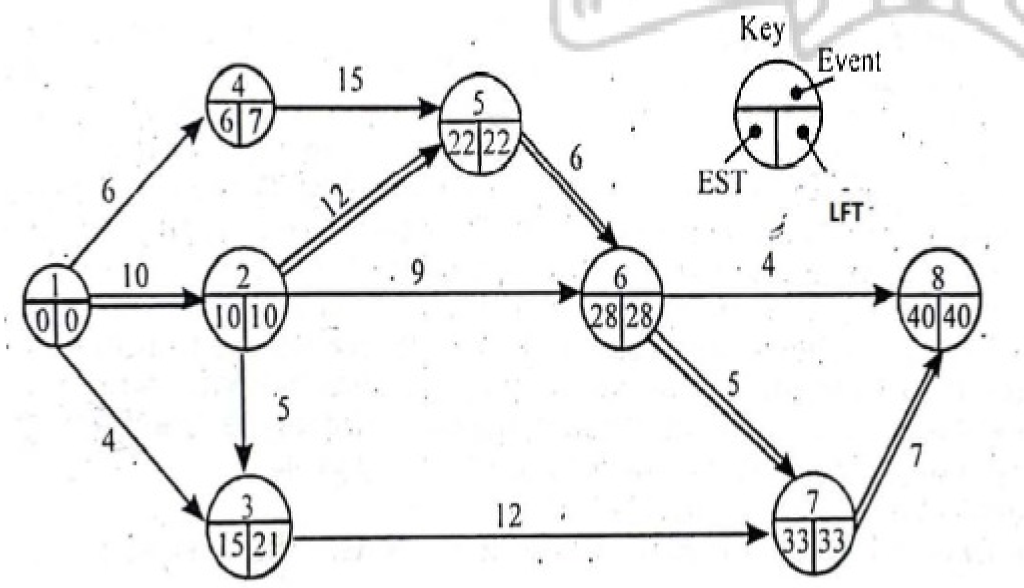
Serial Number	Job (i,j)	Duration (in days)
1	(1,2)	10
2	(1,3)	4
3	(1,4)	6
4	(2,3)	5
5	(2,5)	12
6	(2,6)	9
7	(3,7)	12
8	(4,5)	15
9	(5,6)	6
10	(6,7)	5
11	(6,8)	4
12	(7,8)	7

Required:

(i) Draw an arrow diagram representing the project.
(ii) Calculate earliest start, earliest finish, latest start and latest finish times for all the jobs.
(iii) Find the critical path and project duration.
(iv) Tabulate total float, free float and independent float.

05.02 Solution

(i) The network diagram of the project corresponding to normal duration is given below:



(ii) Statement showing Earliest Start Time (EST), Earliest Finish Time (EFT), Latest Start Time (LST) and Latest Finish Time (LFT) for all jobs.

Jobs	Duration in days	Earliest Time		Latest Time	
		Start (EST)	Finish (EFT)	Start (LST)	Finish(LFT)
1-2	10	0	10	0	10
1-3	4	0	4	17	21
1-4	6	0	6	1	7
2-3	5	10	15	16	21
2-5	12	10	22	10	22
2-6	9	10	19	19	28
3-7	12	15	27	21	33
4-5	15	6	21	7	22
5-6	6	22	28	22	28
6-7	5	28	33	28	33
6-8	4	28	32	36	40
7-8	7	33	40	33	40

Explanatory Notes

a. EST of the activity is the EST of node at the start of activity.
EFT = (EST + Time duration of the Activity)
EST and EFT can be determined by means of Forward Pass.

b. LFT of the activity is the LFT of the node at the end of the activity.
LST = (LFT - Time duration of the Activity)
LFT and LST can be determined by means of Backward Pass.

(iii) Critical Path = 1 ⟶ 2 ⟶ 5 ⟶ 6 ⟶ 7 ⟶ 8

Project duration = 10 + 12 + 6 + 5 + 7 = 40 days

(Critical Path is depicted through double line arrows. Activities that are on Critical Path have zero float. The total time along the critical path is the minimum time in which the whole project can be completed.)

(iv) Total Float, Free Float and Independent Float

Jobs	Duration in days	Slack of event		Total Float (TF)	Free Float (FF)	Independent Float
		at start of activity	at end of activity			
1-2	10	0	0	10-10=0	0-0= 0	0-0= 0
1-3	4	0	6	21-4=17	17-6=11	11-0=11
1-4	6	0	1	7-6=1	1-1=0	0-0=0
2-3	5	0	6	21-15=6	6-6=0	0-0=0
2-5	12	0	0	22-22=0	0-0=0	0-0=0
2-6	9	0	0	28-19=9	9-0=9	9-0=9
3-7	12	6	0	33-27=6	6-0=6	6-0=6
4-5	15	1	0	22-21=1	1-0=1	1-1=0
5-6	6	0	0	28-28=0	0-0=0	0-0=0
6-7	5	0	0	33-33=0	0-0=0	0-0=0
6-8	4	0	0	40-32=8	8-0=8	8-0=8
7-8	7	0	0	33-33=0	0-0=0	0-0=0

Explanatory Notes

a. **Total Float:** Total Float is the amount of time that an activity can be delayed from its early start time without delaying the project finish time.

   Total Float (TF) = (LFT – EFT) or (LST– EST)

b. **Free Float**: Free Float is the amount of time an activity can be delayed without delaying the Early Start of its successor activity.

   Free Float = (Total Float – Slack of event at end of the activity)

   The head event slack of an activity in a network is the slack at the head (or terminal point) of an activity. In other words, head event slack of an activity in a network is the difference between the latest event time and earliest event time at its head (or terminal point or node).

   Free float can also be calculated by subtracting the Early Finish Time of the activity from the Early Start Time of the next activity

c. **Independent Float:** Independent Float is that portion of the total float within which an activity can be delayed for start without affecting the float of the preceding activities. It is computed for an activity by subtracting the tail event slack from its total float.

   Independent Float = (Free Float – Slack of the event at start of the activity)

   The tail event slack of an activity in a network is the slack at the tail (or starting point) of an activity. In other words, tail event slack of an activity in a network is the difference between the latest event time and the earliest event time at its tail (or starting point or node).

06.00 Quick Take
PERT has the ability to cope with uncertainty in activity completion times while CPM emphasizes on the trade-off between cost of the project and its overall completion time.

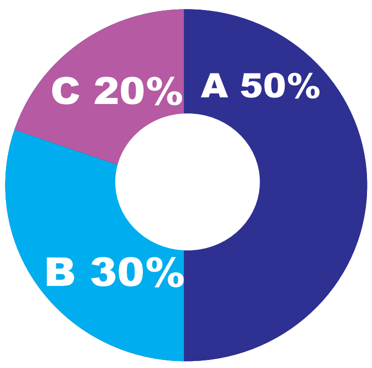
GROUP: 3, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

CA Vikash Mundhra
He can be reached at:
vikash@taxpointindia.com

Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Tax Practice and Procedures **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.

Basics of Transfer Pricing

"Transfer Pricing is not an exact science but does require the exercise of judgement on the part of both the tax administration and taxpayer"

Commercial transactions between the different parts of the multinational groups may not be subject to the same market forces shaping relations between the two independent firms. One party transfers goods or services to another for a price. That price is known as "transfer price". This may be arbitrary and dictated, with no relation to cost and added value, diverge from the market forces. Transfer price is, thus, a price which represents the value of goods or services between independently operating units of an organisation. But, the expression "transfer pricing" generally refers to prices of transactions between associated enterprises which may take place under conditions differing from those taking place between independent enterprises. It refers to the value attached to transfers of goods, services and technology between related entities. It also refers to the value attached to transfers between unrelated parties which are controlled by a common entity.

Suppose a company A purchases goods for ₹ 100 and sells it to its associated company B in another country for ₹ 200, who in turn sells in the open market for ₹ 400. Had A sold it direct, it would have made a profit of ₹ 300. But by routing it through B, it restricted it to ₹ 100, permitting B to appropriate the balance. The transaction between A and B is arranged and not governed by market forces. The profit of ₹ 200 is, thereby, shifted to the country of B. The goods is transferred on a price (transfer price) which is arbitrary or dictated (₹ 200), but not on the market price (₹ 400).

Thus, the effect of transfer pricing is that the parent company or a specific subsidiary tends to produce insufficient taxable income or excessive loss on a transaction. For instance, profits accruing to the parent can be increased by setting high transfer prices to siphon profits from subsidiaries domiciled in high tax countries, and low transfer prices to move profits to subsidiaries located in low tax jurisdiction. As an example of this, a group which manufacture products in a high tax countries may decide to sell them at a low profit to its affiliate sales company based in a tax haven country. That company would in turn sell the product at an arm's length price and the resulting (inflated) profit would be subject to little or no tax in that country. The result is revenue loss and also a drain on foreign exchange reserves.

Computation of income from international transaction or specified domestic transaction having regard to arm's length price [Sec. 92]

The provisions are as under:

Provisions	Example	Treatment	Impact on income
Any income arising from an international transaction shall be computed having regard to the arm's length price.	X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm's length price of such goods or services is ₹ 9 lacs	While computing income of X Ltd., ₹ 9 lacs shall be considered as salle value	Income of X Ltd. will be increased by ₹ 4 lacs.
The allowance for any expense or interest arising from an international transaction or specified domestic transaction shall also be determined having regard to the arm's length price.	R Ltd. takes a loan of ₹ 20 lacs from an associated enterprise in Ireland @ 20% p.a. whereas the arm's length rate of interest is 12% p.a.	Interest @ 12% p.a. shall be allowed as deduction to R Ltd.	Income of R Ltd. will be increased by ₹ 1,60,000/-

Where in an international transaction or specified domestic transaction, · two or more associated enterprises · enter into a mutual agreement or arrangement for the apportionment of, or any contribution to, any cost incurred · in connection with a benefit, service or facility provided to any such enterprises, the cost apportioned to (contributed by), any such enterprise shall be determined having regard to the arm's length price of such benefit, service or facility.	An enterprise in Germany makes research on a new product and incurred ₹ 50 lacs. Out of this, ₹ 40 lacs has been allocated to its Indian associated enterprises dealing in the same product.	While computing income of Indian enterprise, it will be required to be examined whether the Indian enterprise is deriving proportionate benefit to the research expenditure allocated	If no such benefit is available to the Indian enterprise, total income of such enterprises is suitably increased by disallowing proportionate allocated cost.
The provisions (in any of aforesaid situation) shall not apply in a case where the computation of income or the determination of the allowance for any expense or interest or the determination of any cost or expense allocated or contributed has the effect of reducing the income chargeable to tax or increasing the loss, as the case may be, computed on the basis of entries made in the books of account in respect of the previous year in which the international transaction or specified domestic transaction was entered into.	X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm's length price of such goods or services is ₹ 3 lacs	The provision of transfer pricing is not applicable	No Impact
Meaning of associated enterprise [Sec. 92A]			

Associated enterprise, in relation to another enterprise, means an enterprise:

(a) which participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise; or

(b) in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.

Deemed associated enterprise [Sec. 92A(2)]

For the above purpose, two enterprises shall be deemed to be associated enterprises if, at any time during the previous year fulfill any of the following conditions (if one of following conditions are not satisfied, then mere participation in management or control or capital of the other enterprise, etc. shall not make them associate):

(a) one enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power (i.e., equity shares in case of company) in the other enterprise; or

(b) any person or enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power in each of such enterprises; or

(c) the manufacture or processing of goods or articles or business carried out by one enterprise is wholly (not partially) dependent on the use of know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights; or

(d) 90% or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise **or** by persons specified by the other enterprise, **and** the prices and other conditions relating to the supply are influenced by such other enterprise; or

(e) the goods or articles manufactured or processed by one enterprise, are sold to the other enterprise or to persons specified by the other enterprise, and the prices and other conditions relating thereto are influenced by such other enterprise; or

(f) where one enterprise is controlled by an individual, the other enterprise is also controlled by such individual or his relative or jointly by such individual and relative of such individual; or

(g) where one enterprise is controlled by a Hindu undivided family, the other enterprise is controlled by a member of such Hindu undivided family, or by a relative of a member of such Hindu undivided family, or jointly by such member and his relative; or

(h) where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than 10% interest in such firm, association of persons or body of individuals; or

(i) a loan advanced by one enterprise to the other enterprise constitutes not less than 51% of the **book value** of the total assets of the other enterprise; or
Taxpoint: Revaluation of asset shall not be ignored.

(j) one enterprise guarantees not less than 10% of the total borrowings of the other enterprise; or

(k) more than ½ of the board of directors or members of the governing board, **or** one (not ½ of total number of executive director) or more executive directors or executive members of the governing board of one enterprise, are **appointed** by the other enterprise; or
Taxpoint: Mere power to appoint director is not sufficient, such power must be exercised.

(l) more than ½ of the directors or members of the governing board, **or** one or more of the executive directors or members of the governing board, of each of the two enterprises are **appointed** by the same person or persons; or

(m) there exists between the two enterprises, any relationship of mutual interest, as may be prescribed.

Equity Holding	Management	Activities	Control
1. >= 26% direct / indirect holding by enterprise OR 2. By same person in each enterprise 3. Loan >= 51% of Total Assets 4. Guarantees > = 10% of debt > 10% interest in Firm / AOP / BOI	6. Appointment > 50% of Directors / one or more Executive Director by an enterprise OR Appointment by same person in each enterprise	8. 100% dependence on use of intangibles for manufacture / processing / business 9. Direct / indirect supply of > = 90% Raw Materials under influenced prices and conditions Sale under influenced prices and conditions	11. One enterprise controlled by an individual and the other by himself or his relative or jointly 12. One enterprise controlled by HUF and the other by - a member of HUF - his relative or Jointly by member and relative

Computation of arm's length price [Sec. 92C]

* The arm's length price in relation to an international transaction or specified domestic transaction shall be determined by any of the following methods, being the most appropriate method, having regard to the nature of transaction or class of transaction or class of associated persons or functions performed by such persons or such other relevant factors as the Board may prescribe, namely

Transaction Based Methods

(a) comparable uncontrolled price method

(b) resale price method;

(c) cost plus method;

Profit Based Methods

(d) profit split method

(e) transactional net margin method;

(f) such other method as may be prescribed by the Board.

Illustration

Discuss whether adjustment is required in the context of transfer pricing provisions where the transfer price adopted for an international transaction of sale of goods by an Indian company during the financial year 2018-19, is ₹ 50 lacs whilst the Arm's Length Price determined using the most appropriate method are ₹ 48 lacs and ₹ 56 lacs. Assume that the rate of permissible variation prescribed by the Central Government is 2% of the transfer price for this class of international transaction.

Solution

The proviso to section 92C(2) provides that where more than one price is determined by the most appropriate method, the arm's length price (ALP) shall be taken to be the arithmetical mean of such prices. However, if the arithmetical mean, so determined, is within such percentage of the transfer price notified by the Central Government, then, the transfer price shall be deemed to be the arm's length price and no adjustment is required to be made.

The arithmetical mean of the prices = (₹ 48 + ₹ 56) / 2 = ₹ 52 lacs.

The rate of permissible variation prescribed by the Central Government is 2% i.e. ₹ 1 lacs (₹ 50 lacs x 2%).

Since the variation between the arm's length price of ₹ 52 lacs and the transfer price of ₹ 50 lacs is not within the limit of 2% of TP (i.e., ₹ 1 lacs), the arm's length price shall be ₹ 52 lacs.

The Assessing Officer may compute the total income of the Indian company having regard to the arm's length price of ₹ 52 lacs so determined. No deduction shall be allowed under Chapter VI-A or section 10AA in respect of ₹ 2 lacs, being the amount of income by which the total income of the Indian company is enhanced after application of the arm's length price of ₹ 52 lacs.

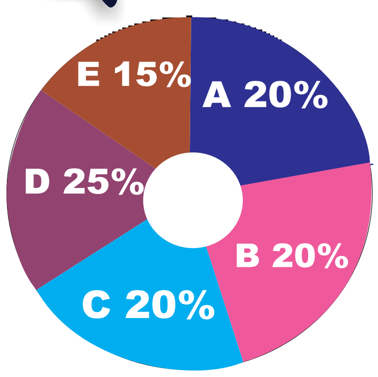
Note: It is assumed that the assessee has not entered into an Advance Pricing Agreement and has also not opted to be subject to Safe Harbour Rules.

GROUP: 4, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

Dr. Ananda Mohan Pal
Professor & Head,
Department of Management,
The University of Calcutta,
He can be reached at:
apal59@gmail.com

Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business Cominations & 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

In business combination there may be acquisition in stages. The investor may previously hold shares in investee. The previous investment may have significant influence on the investee and the investor maintains accounts under Equity method. Subsequently the investor may acquire control of the investee. Then previously held investment has to be disposed of at fair value at the date of acquisition. An amount already accounted in OCI under Equity method has to be transferred to Profit and Loss. The difference between carrying amount and fair value of previously held investment has to be taken to Profit and Loss. In the following two problems we may find accounting of acquisition in stages along with other issues like contingent consideration and transaction cost. Contingent consideration (unpaid) is added to Consideration and shown as liability. Transaction cost is charged to Profit and Loss.

Problem 1: Entity Sun acquired 30 % of Entity Moon at 31-03-20X1 for Rs. 12,000 and accounted investments under equity method. At 31-03-20X2, Sun recognized share of Net Asset changes in Moon as follows: Share of Profit and Loss amounted to Rs. 900 and share of OCI amounted Rs. 600.

At 01-04-20X2, Sun further acquired 50% stake in Moon. Consideration paid Rs. 25,000 by equity shares issued at par. Entity Sun identifies the net assets of Moon as Rs. 48,000, Fair value of investment in 30% shares Rs. 14,400. NCI is valued at Rs. 9,600.
Show workings and Journal entries.

Solution:

		Rs.
WN 1. Investment at cost		12,000
Share of Net Asset Change (900+600)		1,500
Carried amount at 31-03-20X2	=	13,500
Fair Value at 01-04-20X2		14,400

WN 2. Sun will make transfer to P&L:

Gain on disposal of 30% investment Rs. (14,400 - 13,500) = Rs. 900

Gain previously reported in OCI = Rs. 600

Total transfer to P & L = Rs. 1500

WN 3. Sun will measure goodwill as follows:	
Fair Value of consideration given for controlling interest	Rs. 25,000
Non-controlling interest at Fair Value	Rs. 9,600
Fair Value of previously-held interest	Rs. 14,400
	Rs. 49,000
Less : Fair value of net assets of acquiree	Rs. 48,000
Goodwill	Rs. 1,000

Journal Entries in the books of Sun

Particulars		Dr. (Rs.)	Cr. (Rs.)
Investment A/c	Dr.	900	
OCI A/c	Dr.	600	
To, P&L A/c			1,500

Net Assets A/c	Dr.	48,000	
Goodwill A/c	Dr.	1,000	
To, Consideration A/c			25,000
To, Investment A/c			14,400
To, NCI A/c			9,600

Consideration A/c Dr. Rs. 25,000
To, Equity Share Capital Rs. 25,000

Problem 2: Gold Ltd. holds 20% shares of Silver Ltd. for certain years. On 01-04-20X1 Gold further acquires 50% shares of Silver at a consideration of Rs. 3,60,000 in cash and by issue of 10000 shares of Rs. 10 (market price). Debentures of Silver are exchanged for 12% Debenture of Gold. A contingent consideration is also payable, fair value of which at the date of acquisition is estimated at Rs. 50,000. Gold pays transaction cost Rs. 10,000. Non-Controlling Interest is recognized at Rs. 1,80,000. The fair value of shares previously held in Silver amounts to Rs. 1,20,000. The fair values of assets and liabilities of Silver are stated below:

	Fair Value Rs.
PPE	2,40,000
Current Assets	5,20,000
Creditors	32,000

The abstracts of consolidated balance sheet of Gold and individual balance sheet of Silver on 31-03-20X1 are given below:

Rs.

Liabilities	Gold	Silver	Assets	Gold	Silver
Equity Share Capital	4,60,000	2,50,000	PPE	1,80,000	1,60,000
Other Equity	3,70,000	5,00,000	Investment in 20% shares in Silver (valued at Equity Method)	90,000	
12% Debenture	60,000	10,000	Current Assets	6,70,000	6,40,000
Creditors	50,000	40,000			
Total	9,40,000	8,00,000	Total	9,40,000	8,00,000

Pass journal entries in the books of Gold for business combination and show the consolidated balance sheet.

Solution:
Working note 1: Net Identified Assets at fair value:

PPE	2,40,000
Current Assets	5,20,000
Less Creditors	32,000
Less Debenture	10,000
Net Identified Assets at fair value	7,18,000

Working note 2: Consideration:

	Rs.
Cash payment	3,60,000

Issue of shares	1,00,000
Contingent consideration	50,000
Consideration	5,10,000

Working note 3: Goodwill:

	Rs.
Consideration	5,10,000
Fair value of previously held shares	1,20,000
NCI	1,80,000
Total	8,10,000
Net Identified Assets at fair value	7,18,000
Goodwill	92,000

- Journal Entries in the books of Gold

	Dr. (Rs.)	Cr. (Rs.)
Investment A/C Dr. (raised to fair value)	30,000	
To, Profit and Loss A/C (1,20,000-90,000)		30,000
PPE Dr.	2,40,000	
Current Assets Dr.	5,20,000	
Goodwill Dr.	92,000	
To, Consideration		5,10,000
To, Creditors		32,000
To, 12% Debentures		10,000
To, NCI		1,80,000
To, Investment		1,20,000
Consideration A/C Dr.	5,10,000	
To, Equity Share Capital		1,00,000
To, Cash		3,60,000
To, Liability for Contingent Consideration		50,000
Transaction Cost Dr.	10,000	
To, Cash		10,000
Profit and Loss A/C Dr.	10,000	
To, Transaction Cost		10,000

Consolidated Balance Sheet of Gold (after business combination) (Amount in rupees)

		Consolidated
PPE	1,80,000 + 2,40,000	4,20,000
Goodwill	Note 3	92,000
Current Assets	6,70,000+5,20,000-3,60,000-10,000	8,20,000
Total		**13,32,000**
Equity Share Capital	4,60,000+1,00,000	5,60,000
Other Equity	3,70,000+30,000 - 10,000 (transaction cost)	3,90,000
NCI	Note 2	1,80,000
12% Debenture	60,000+10,000	70,000
Liability for contingent consideration		50,000
Trade Payables	50,000+32,000	82,000
Total		**13,32,000**

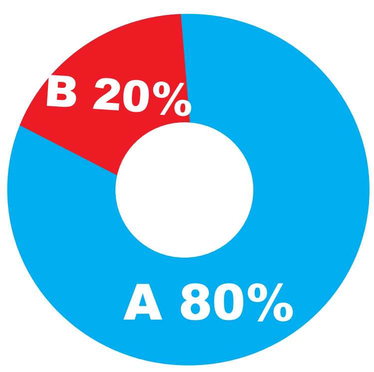
Vol: 4, No.: 10.
October 2019, Issue

CMA Rana Ghosh
Chief Executive Officer,
Institution of Estate Managers & Appraisers
He can be reached at:
ranaham@rediffmail.com

GROUP: 4, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

Your Preparation Quick Takes



Syllabus Structure

A Advanced Indirect Tax - Laws & Practice **80%**

B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section you will have some enhanced understanding of –

- Person should register under GST Act
- CBIC Notification for enhancement of threshold limit of turnover
- Voluntary registration
- Documents required for GST Registration
- Registration of casual taxable person and non resident taxable person
- OIDAR registration
- Registration to person required to deduct tax at source
- Procedure for amending the registration

REGISTRATION UNDER GST LAW

Goods and Service tax (GST) has been implemented in India w.e.f.1st July, 2017 where every supplier shall be liable to be registered under GST Act in the State or Union Territory, other than special category of States from where he makes taxable supply of goods or services or both, if the aggregate turnover in a financial year exceeds Rs 20 lakhs.

Provided that where such person makes taxable supplies of goods or services or both from any of the special category State, he shall be liable to be registered if the aggregate turnover in financial year exceeds Rs 10 lakhs.

The following are the persons should registered under GST –

1. Inviduals who were registered under Exercise, VAT, Service Tax etc in pre GST era (law prevailed before GST came into force) i.e. had to migrate under GST Act.
2. Busines with turnover above threshold limit of Rs 20 lakhs or Rs 10 lakhs for North Eastern States, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.
3. Casual Taxable person and Non resident taxable person.
4. Agent of a supplier and Input service distributer.
5. Who are paying tax under reverse charge mechanism.
6. Persons who supplies via e commerce aggregator.
7. All e commerce aggregator.
8. Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person.

Note :

As per CBIC Notification No 10/2019 dt 07.03.2019 increase in threshold turnover from Rs 20 lakhs to Rs 40 lakhs. The notification come into effect from 1st April,2019.It specifically stated –

"Any person, who is engaged in exclusive supply of goods and whose aggregate turnover in the financial year does not exceed forty lakh rupees, except, -

(a) persons required to take compulsory registration under section 24 of the said Act;
(b) persons engaged in making supplies of the goods, the description of which is specified in column (3) of the Table below and falling under the tariff item, sub-heading, heading or Chapter, as the case may be, as specified in the corresponding entry in column (2) of the said Table;

(iii) persons engaged in making intra-State supplies in the States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura, Uttarakhand; and

(iv) persons exercising option under the provisions of sub-section (3) of section 25, or such registered persons who intend to continue with their registration under the said Act.

Table

Sl No	Tariff item, sub -heading, heading or Chapter	Description
(1)	(2)	(3)
1	2105 00 00	Ice cream and other edible ice, whether or not containing cocoa.
2	2016 90 20	Pan masala
3	24	All goods i.e. Tobacco and manufactured tobacco substitutes.

This notification shall come into force on the 1st day of April, 2019"

Voluntary Registration
A person, though not liable to be registered under Sec 22 or 24, may get himself / herself registered voluntarily even if the annual turnover does not exceeds the threshold limit, and all the provisions of the CGST Act, as are applicable to a registered person, shall apply to such person [Sec 25(3) of CGST Act].Once registered the person have to pay GST.
The Voluntary registration now can be cancelled any time.

Documents Required for GST Registration
a) Identity and Address proof of proprietor, partner, director, CEO/MD, Karta alongwith photographs.
b) PAN and Aadhaar card of the applicant.
c) Constitution of business – partnership deed or registration of business or incorporation certificate.
d) Proof of principal place of business i.e. ownership details ,rent / lease agreement, electricity bills, property tax receipt.
e) Bank account details / proof , cancelled cheque.
d) Digital Signature
e) Authorisation in prescribed form (as given in form GST REG – 01)

Registration of Casual Taxable Person and Non Resident Taxable Person
Non resident taxable person – Any person who occasionally undertakes transactions involving supply of goods or services or both, whether as principal or agent or in other capacity but who has no fixed place of business or resident in India [Sec 2(77) of CGST Act]
Casual taxable person – A person who occasionally undertakes transactions involving supply of goods or services or both in the course of furtherance of business whether as principal, agent, or in other capacity, in a State or Union Territory where he has no fixed place of business [Sec 2(20) of CGST Act]

A casual taxable person or a non resident taxable person shall apply for registration at least five days before the commencement of business.

The certificate of registration shall be valid for the period specified in the application for registration or ninety days from the effective date of registration, whichever is earlier.

The proper officer may, at the request of the said taxable person, extend the aforesaid period of ninety days by a further period not exceeding ninety days.

A casual taxable person or a non resident taxable person shall at the time of submission of application for registration under Section 25(1) of CGST Act, make an advance deposit of tax in an amount equivalent to the estimated tax liability of such person for the period which the registration is sought [Sec 27(2) of CGST Act].

Registration to a person supplying online information and data base access or retrieval services (OIDAR) from a place outside India to anon taxable online recipient

Online information and database access or retrieval services [OIDAR] means services whose delivery is mediated through the internet. The supply is essentially automated involving minimal human intervention and impossible without information technology.

Following are some of the electronic services to be considered as OIDAR

1.Advertising on internet
2.Providing cloud services (Google Drive)
3.Provision of e-books, movie, music, software and other intangibles via internet (Hotstar, Amazon Prime Video)
4.Providing information or data, retrievable or otherwise, to any person, in electronic form through a computer network
5. Online games.
6.Providing of trade statistics, legal and financial data, matrimonial services, social networking sites etc through Web based services.

The registration process of OIDAR services –

1.The person shall electronically submit an application for registration, duly signed in GST REG – 11 [Rule 15(1) of CGST Rules, 2017]
2.The applicant shall be granted registration, in form GST REG – 06, subject to such conditions and restrictions and by such officer as may be notified [Rule 15(2) of CGST Rules, 2017].

Registration to persons required to deduct tax at source
The following person / entities required to deduct TDS –
1.A department or establishment of the Central or State Government

2.Local authorities

3.Government agencies

4. (a) an authority or board or any other body :
(i) set up by an Act of parliament or a state legislature or
(ii) established by any government
with fifty-one percent or more participation by way of equity or control.

(b) The society established by the central government or state government or any local authority

(c) Public sector undertakings as notified in the latest notification dated 13th Sep 2018.

Process of Registration –

1. Any person who is required to deduct tax in accordance with the provision of section 51 shall electronically submit an application, duly signed or verified through electronic verification code, in Form GST REG – 07 on the Common portal, either directly or from a Facilitation Centre notified by the Commissioner for grant of registration.
2. The proper officer will grant registration after due verification and issue a certificate of registration in Form GST REG-06 within a period of three working days from the date of submission of application.

   The registration can be cancelled after notice, enquiring and hearing. The cancellation shall be intimated to the said person electronically in form GST REG – 08.

Procedure for Amending the Registration

When any change become necessary of the particulars furnished in the application in Form GST REG – 01 or Form GST REG – 07 or Form GST REG – 09 or Form GST REG – 10 or for UID in Form GST REG – 13, the registered person shall submit an application within fifteen days of such changes, which should be duly signed or verified electronically in Form GST REG – 14, along with documents relating to such change [Rule 19(1) (a) of CGST Rules 2017]

If the changes relates to –

1.legal names of business / entity

2. address of the principal place of business or any additional place of business or

3. addition, deletion or retirement of partners or directors, Karta, Managing Committee, Board of Trustee, Chief Executive Officer or equivalent, responsible for day to day affairs of the business.

It does not warrant cancellation of registration under section 29 of CGST Act. It only required amendment to registration certificate.

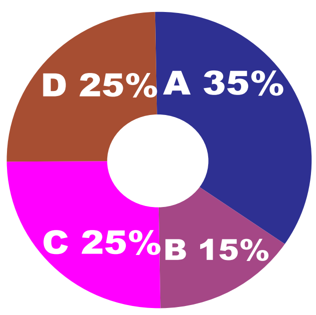
In that case, The proper officer in that case, shall approve the amendment within the fifteen working days from the date of receipt of the application in Form GST REG – 14 after due verification. The order will be issued by the proper officer in Form GST REG – 15 electronically. The amendment shall take effect from the date of occurrence of the event warranting amendment.

CMA Bimalendu Banerjee
He can be reached at:
bbanerjee2050@gmail.com

GROUP: 4, PAPER: 19

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

COST AUDITOR – PROFESSIONAL ETHICS AND RESPONSIBILITIES

The Companies Act cast upon the cost auditor the following nature of responsibilities:

Legal responsibilities:

i) A member must ensure that he is qualified to function as a cost Auditor, by holding a certificate of practice, within the meaning of the cost and works Accountants Act, 1959. A firm whereof all the partners practicing in India are qualified as aforesaid and eligible to be appointed by the firm name as an auditor of the company, any partner so practising must act in the firm name.

ii) He must ensure that he is not attracted by any of the disqualifications under section 226(3) of the act which specifies that the persons, such as a body corporate, an officer or employee of the company, a person who is a partner or who is in the employment of an officer or employee of the company, shall not be qualified for appointment as auditor of a company.

iii) He must not be indebted to the company for an amount exceeding one thousand rupees or he must not have given any gurantee or provided any security in connection with the indebtedness of a third party to the company for an amount exceeding one thousand rupees.

iv) He must not be a director or member of a private company.

v) He must ensure that his appointment as a cost auditor of a company is within the limits as to the specified number of companies as explained under 224(I- B) of the companies Act, 1956.

Other Obligation:

i) The measure of an auditor's responsibility depends upon the terms of his engagement, either by special contract or as contained in the Articles.

ii) The cost auditor must make himself acquainted with his duties under the companies Act, and the responsibilities under the cost Audit report rules, 1996, and also with the nature, scope and extent of application of cost accounting record rules relevant to the products for which he has accepted the audit assignment.

iii) His responsibility is not to confine himself merely to the task of verifying the arithmetical accuracy of the annexures and proforma of the cost statements, but to enquire into the substantial accuracy and to ascertain that the statements were property drawn up so as to depict reasonability in arriving at the cost of individual products.

iv) He is duty bound to see what exceptional duties, if any, are cast upon him by the Articles of the Company.

v) He owes his duty of care primarily to the company, with whom alone he is in any contractual relationship.

vi) He must send his cost audit report to the Central Government and forward a copy of the same to the company in accordance with section 233B(4) of the Act.

vii) He is liable to pay damages, if on account of his breach of the statutory duties or wrongful acts, the company suffers loss. He is also held responsible to the Central Government who are misled by a false information or statement which had been certified by his as correct.

Under Section 143 (12) of the Companies Act, 2013, it is the duty of the Cost Auditor to report 'FRAUD'.

In the course of performance of duties, if an auditor has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

In case the cost auditor fails to comply with the above provision, he shall be punishable with fine ranging from Rs. 1,00,000/- to Rs. 25,00,000/-.

The Act envisages that, while reporting the matter to the Central Government, the following should be specified therein:

(a) Nature of Fraud with description
(b) Approximate amount involved
(c) Parties involved

It is also obligatory on the part of a cost auditor to disclose the above matters along with the remedial actions taken, if any, in the Board's Report.

PROFESSIONAL ETHICS AND RESPONSIBILITIES

The Institute of Cost Accountants of India (ICAI) has prescribed the following professional ethics for the members (Cost Accountants) in practice.

1. Independence, Integrity, objectivity
2. Responsibility to clients and confidentiality
3. Responsibilities to colleagues
4. Responsibilities to practice and profession

5. Competence and technical standards
6. Publicity, fees and allied issues.

The main points noted above are discussed in details, to the extent possible herein under:

1. Independence, Integrity, objectivity

(a) A member shall be straight forward, honest and sincere in his approach to professional work.

(b) A member must be fair and must not allow prejudice or bias to over-ride objectivity and should maintain impartial attitude while reporting on cost and financial statements.

(c) A member should be and should appear to be free of any interest which might be regarded as being incompatible with integrity and objectivity.

(d) In order to ensure independence, a member shall not have substantial financial involvement in client's affairs/business.

(e) If a member has any family/personal relationship with the client, it should be disclose.

2) Responsibility to clients and confidentiality

(a) A member should respect confidentiality of information acquired in course of work and should not disclosed any such information to a third party without specific authority / consent of client or unless there is a professional right/duty to disclosure.

(b) Confidential information should not be used for personal gain or gain of a third party. The principle of confidentiality should also be maintained where a member faithfully receives advice/assistance from his employees/assistants or individuals.

3) Responsibility to colleagues

(a) A practising member shall not directly or indirectly solicit business,

(b) If a practising member is approached by a client of another member to give services or advice of a special character, communication must be made to the other member of the circumstances.

(c) A practising member receiving an engagement for services under referral from another member, shall not go beyond the extent of that engagement without consulting the referring member.

(d) Where a member is approached to replace another member, that appointment must not be accepted without first communicating with the previous or existing holder of office and ascertaining existence of any professional reason necessitating such change, and such communication in the above cases must be made before acceptance of appointment.

(4) Responsibilities of practice and Profession

In case a Practising Member/Firm maintains branch office in India, each shall be under separate charge of a member of ICAI.

A Practising Member is guilty of professional misconduct in the following circumstances.

(a) The Practicing Member allows any person to practice in the former's name or allows such person to sign any financial / cost statement or issue certificate on his behalf unless the later is a member in practice and is in partnership with or employed by the former.

(b) The Practising Member pays, allows or agrees to pay, directly or indirectly any share/commission/brokerage in the fees/profits of his professional business to any person other than a member or a partner/ a retired partner /legal representative of a deceased partner.

(c) The practising Member engages in any other business and occupation excluding those allowed by a general or Specific Resolution of the Council of the Institute.

(d) The Practising Member certifies or submits in his name or in a firm name, a report of an examination of financial/cost statements, unless examination of such statements and related records are done by him or by a partner or employee of his firm or by another practising member.

(e) Members must restrict use of trade/firm name to proper names and not to adopt any other name. In other words, the firm name shall not be fictitious, indicative of specialization, or misleading as to the type of organization.

(5) Competence and Technical Standards

Members are duty bound to carry out professional work with care and skill and in conformity with the technical and professional standards prescribed by the related professional body or legislation of the country. Members are to accept professional work only within their professional competence.

(6) Publicity, Fees and Allied Issues

Following are prohibited:

(a) Soliciting of clients/professional work, personal communication/interview by any means.

(b) Responding to tenders / advertisements / circulars inviting quotation for professional work.
However, this prohibition is not applicable on enquiry by Govt. Company / Govt. Deptts. / Banks / Co.-Op. Societies, Institutions.

(c) Soliciting of professional work by making roving enquiry and making offer for employment against advertisement.

(d) Advertising for employment or for sub-contract/agency work.

(e) Any advertisement or note to public /press that amounts to soliciting or canvassing.

Regarding Fees: Following are prohibited.

(a) To charge/offer to charge/accept/ offer to accept any fee for professional work, as a percentage of profit or which are contingent upon the findings and results of such work.

(b) To obtain professional work through having quoted for that purpose, a fee lower than that charged by the cost accountant previously carrying out that work. In simple words a member should not indulge himself into under-cutting of fees.

Regarding Publicity to Professional Attainment : The following are prohibited:

(i) Advertisement of own professional attainment / services

(ii) Use of any designation / description other than degrees of universities established by law in India or accepted by Central Government / professional Institutes recognized by Central Government or other degrees/titles permitted by the Council.

(iii) Press publicity to appoint as an auditor.

However, the following are permitted:

(a) Advertising changes in address/ partnerships / dissolutions.

(b) Entry into Telephone directory to classified list under group heading limited to Cost Accountants provided that all members of the area have access to such entry of own name.

(c) Professional discussion/correspondence with prospective clients relating to achievements and capabilities.

(d) Publicity to member's appointment to positions of local/national importance is encouraged (but firm name shall be avoided)

(e) Notice to press-examination success of candidate belonging to a firm (without giving undue publicity to the firm)

Regarding Advertisement:

Following are permitted provided that prominence of display is not unusual:

(a) Advertisement for staff/trainee in own office

(b) Advertisement on behalf of clients requiring staff or wishing to acquire /dispose of properly business.

(c) Advertisement for sale of business / property with the practising member acting as trustee/liquidator.

(d) Publication of any document certified by the practising member (provided that nature and extend of such publication justifies the purpose of publication.

Vol: 4, No.: 10.
October 2019, Issue

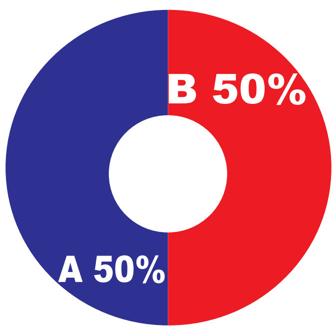
YEARS OF CELEBRATING THE MAHATMA

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta

GROUP: 4, 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

Valuation in Merger and Acquisitions

Merger

Merger refers to a situation when two or more existing firms combine together and form a new entity. Either a new company may be incorporated for this purpose or one existing company (generally a bigger one) survives and another existing company (which is smaller) is merged into it. Laws in India use the term amalgamation for merger.

Merger through absorption
Merger through consolidation

Types of Mergers

Generally, the following five different types of mergers are possible:

(i) Horizontal merger: The two companies which have merged are in the same industry, normally the market share of the new consolidated company would be larger and it is possible that it may move closer to being a monopoly or a near monopoly. In common parlance when a large FMCG company acquires and merges with it a logistics management company by way of a cost reduction measure, essentially it is considered as a part of horizontal merger. It may or may not decide to take business from any other third party.

(b) **Vertical merger:** It means the merger of two companies which are in different field altogether, the coming together of two concerns may give rise to a situation similar to a monopoly. Under this group the examples could of an upstream company merging with downstream company, e. g., merger of a crude oil exploration company with an oil refining company.

© **Reverse merger:** Where, in order to avail benefit to carry forward of losses which are available according to tax law only to the company which had incurred them, the profit making company is merged with companies having accumulated losses. Reverse merger leads to the following benefits for acquiring company:

- Easy access to capital market.
- Increase in visibility of the company in corporate world.
- Tax benefits on carry forward losses acquired company.
- Cheaper and easier route to become public company.

(d) **Conglomerate merger:** Such mergers involved firms engaged in unrelated type of business operations. In other words, the business activities of acquirer and the target are not related to each other horizontally or vertically, i.e. producing the same or competitive products nor vertically having relationship of buyer and supplier.

(e) **Co-generic merger:** In these mergers, the acquirer and the target companies are related through basic technologies, production processes or market. The acquired company represents an extension of product line, market participants or technologies of the acquirer. When a smart phone manufacturing company takes over a company manufacturing Tabs, it will be a considered as a co-generic merger as product groups are essentially same except the voice part.

Major theories of Mergers & Acquisitions

The following theories of mergers and acquisitions are discussed below:

(i) **Synergy or Efficiency:** In this theory, the total value from the combination is greater than the sum of the values of the component companies operating independently.

(ii) **Hubris:** The result of the winner's curse, causing bidders to overpay. It is possible that value is unchanged.

(iii) **Agency:** The total value here is decreased as a result of mistakes or managers who put their own preferences above the well-being of the company.

Valuation Models for M& A

1. Comparative Ratios: The following are two examples of the many comparative metrics on which acquiring companies may base their offers:

(a) Price-Earnings Ratio (P/E Ratio): With the use of this ratio, an acquiring company makes an offer that is a multiple of the earnings of the target company. Looking at the P/E for all the stocks within the same industry group will give the acquiring company good guidance for what the target's P/E multiple should be.

(b) Enterprise-Value-to-Sales Ratio (EV/Sales): With this ratio, the acquiring company makes an offer as a multiple of the revenues, again, while being aware of the price-to-sales ratio of other companies in the industry.

2. Replacement Cost - In a few cases, acquisitions are based on the cost of replacing the target company. For simplicity's sake, suppose the value of a company is simply the sum of all its equipment and staffing costs. The acquiring company can literally order the target to sell at that price, or it will create a competitor for the same cost. Naturally, it takes a long time to assemble good management, acquire property and get the right equipment. This method of establishing a price certainly wouldn't make much sense in a service industry where the key assets - people and ideas - are hard to value and develop.

3. Discounted Cash Flow (DCF) - A key valuation tool in M&A, discounted cash flow analysis determines a company's current value according to its estimated future cash flows. Forecasted free cash flows (net income+ depreciation/amortization - capital expenditures - change in working capital) are discounted to a present value using the company's weighted average costs of capital (WACC). Admittedly, DCF is tricky to get right, but few tools can rival this valuation method.

Forms of Consideration and Terms of Acquisitions

The provisions of Accounting Standard (AS-14) on Accounting for Amalgamations need to be referred to in this context.

Methods of Payment:

The two main methods of financing an acquisition are cash and share exchange.

(1) Cash: This method is generally considered suitable for relatively small acquisitions. It has two advantages: (i) the buyer retains total control as the shareholders in the selling company are completely bought out, and (ii) the value of the bid is known and the process is simple.

(2) Share Exchange: The method of payment in large transactions is predominantly stock for stock. The advantage of this method is that the acquirer does not part with cash and does not increase the financial risk by raising new debt. The disadvantage is that the acquirer's shareholders will have to share future prosperity with those of the acquired company and also loses the benefits from tax shield on interest which it would have derived.

Such settlement of an acquisition transaction through equity share of the acquirer is also technically called as 'Equity as the Currency of the Deal'.

Example

X Ltd. is a highly successful company and wishes to expand by acquiring of other firms. Its expected high growth in earnings and dividends is reflected in its PE ratio of 17. The Board of Directors of X Ltd. has been advised that if it were to take over firms with a lower PE ratio than it own, using a share-for share exchange, then it could increase its reported earnings per share. Y Ltd. has been suggested as a possible target for a takeover, which has a PE ratio of 10 and 1,00,000 shares in issue with a share price of ₹15. X Ltd. has 5,00,000 shares in issue with a share price of ₹12.

Calculate the change in earnings per share of X Ltd. if it acquires the whole Y Ltd. by issuing shares at its market price of ₹ 12. Assume the price of X Ltd. shares remains constant.

Answer:

Total value of Y Ltd. is = 1,00,000x₹15	=₹15,00,000
PE Ratio	=10
Therefore, earnings	=₹ 15,00,000/10
	=₹1,50,000
Total market value of X Ltd. is 5,00,000xRs.12	=₹60,00,000
PE Ratio	=17
Therefore, earnings	= ₹60,00,000/17
	= ₹3,52,941
The number of shares to be by X Ltd.	
₹15,00,000/12	=1,25,000
Total number of shares	=5,00,000+1,25,000=6,25,000
The EPS of the new firm is	=(₹3,52,941+₹1,50,000)/6,25,000)
	=₹0.80
The present EPS of X Ltd.	= ₹3,52,941/5,00,000
	=₹0.71

So, the EPS affirm X Ltd. will increase from ₹0.71to ₹0.80 as a result of merger.

150 YEARS OF CELEBRATING THE MAHATMA

Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
10th December, 2019 (Tuesday)	Corporate Laws & Compliance (Paper 13) (Group - III)
11th December, 2019 (Wednesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
12th December, 2019 (Thursday)	Strategic Financial Management (Paper 14) (Group - III)
13th December, 2019 (Friday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
14th December, 2019 (Saturday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
15th December, 2019 (Sunday)	Cost & Management Audit (Paper 19) (Group -IV)
16th December, 2019 (Monday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
17th December, 2019 (Tuesday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)

150 YEARS OF CELEBRATING THE MAHATMA

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
Webinar seasons

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

150 YEARS OF CELEBRATING THE MAHATMA

SUBMISSION

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.

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

Message from
Directorate of Studies

Dear Students,

We from the Directorate of studies know your expectations from us and accordingly we are trying to delivery some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through, Mock Test Papers (MTPs), Work Book, and we have conducted Webinar sessions. Before stepping in to the examination hall, please go through the PPTs on "Achieve your GOAL"; Uploaded by the Directorate of Studies and which will help you to know about certain Do's and Don'ts in the examination.

You know that the nation is celebrating 150th birth anniversary of the father of the nation **M.K. Gandhi**. One of his inspirational message towards the students were:

"Whatever you do will be insignificant. But it is very important that you do it",

Let us observe his memory by following his message.

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 links mentioned below :

For Mock Test Papers (MTP) : **https://icmai.in/studentswebsite/mtp2016_j19_Final.php**

For PPT on "Achieve your GOAL : **http://icmai.in/studentswebsite**

For Work Book Link : **https://icmai.in/studentswebsite/Workbook-Syl-2016-Final-March2019.php**

Live/Recorded Webinar Link : **https://eicmai.in/Webinar_Portal/Students/StudentLogin.aspx**

Ebulletin Link : **https://icmai.in/studentswebsite/E-Bulletin.php**

We are sure that you will be motivated after looking into the placement news of our students' appeared in the Times of India, newspaper.

GOOD LUCK & Best wishes.

Be Prepared and Get Success;

Few Snapshots

CMA Balwinder Singh President ICAI and Shri. K Sankaranarayanan Ex-Governor of the Indian state of Maharashtra, Nagaland & Jharkhand inaugurating Thrissur Chapter events by lighting the lamp. With them are CMA H Padmanabhan Council Member ICAI, CMA Dr PVS Jaganmohan Rao President SAFA, CMA Jyothi Satish Chairperson and CMA Sankar Panicker VC ICAI SIRC and CMA T G Sugunan Chairman & MCMs Thrissur Chapter

CMA Balwinder Singh, President along with CMA Vijender Sharma, Chairman, Professional Development Committee of the Institute extending greetings to Shri Ramesh Pokhriyal, Hon'ble Union Minister of Human Resource Development on 12th September 2019.

CMA Balwinder Singh, President along with CMA Biswarup Basu, Vice President and CMA Chandra Wadhwa, Past President of the Institute extending greetings to Shri Hardeep Singh Puri, Hon'ble Union Minister of State (IC) for Ministry of Housing & Urban Affairs on 16th September 2019.

CMA Balwinder Singh, President ICAI honoring CMA N P Sukumaran, Former President ICAI (1996-97) with Institute Medallion along with CMA H Padmanabhan Council Member ICAI, CMA Jyothi Satish Chairperson and CMA Sankar Panicker VC ICAI SIRC with TCCA MCMs

TEAM ICAI SIRC participates in Swachhtha Pakhwada celebrations, October 2nd 150 th Mahatma Gandhi Anniversary celebrations. CMA H Padmanabhan Council Member ICAI, CMA Jyothi Satish Chairperson, CMA Rajesh Sai Iyer, RCM, Members and Officials of ICAI SIRC involved in the Services

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016

Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143

Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003

Phone: +91-11-2462-2156/2157/2158

Behind every successful business decision, there is always a CMA