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150 YEARS OF CELEBRATING THE MAHATMA

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STAY SAFE

CMA Student E - Bulletin

FINAL

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Behind every successful business decision, there is always a CMA

Vol: 5, No.: 4.
April 2020, Issue

STUDENTS' E-bulletin Final

Message from The Chairman

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

MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!

"Happiness is when what you think, what you say and what you do are in harmony"-M.K. Gandhi

'Rethinking' is the need of the hour. The world has given us the opportunity to rethink and restructure our basic lifestyle. Before the 'lockdown' we were in a world full of amenities and scopes. Mother earth had offered us with her plenty of treasures and we had used those in an unbridled manner. The world needs people with high values to make it a better place to live in. It requires a vigorous study to enrich the knowledgebase. Towards this end, we may prefer to see that our students are contributing to the development of the nation by the implementation of requisite knowledge towards the restructuring of the society. During this pandemic of COVID19 we request our students to **'Stay home, Stay safe'** and meantime enhance the habit of self study and self teaching as well.

The Directorate of Studies is continuously trying to offer the best to the students to help them carry on their study. Live Webinars are getting conducted for the benefit of the students to study from home with the already recorded webinars are kept in the e-library, Answers to the Mock Test Papers (MTPs), updated Work Books and monthly E-bulletins are also being uploaded on our website. Eminent academicians and industrial personnel are contributing in their own way for the development of our students too. Being the Chairman of Training & Education Facilities and Placement Committee, I am really thankful to all of them. You please try to grab the opportunities being offered by the Directorate of Studies.

My appeal to all of you is, try to be determined in your own way to enable the society to cope up with this pandemic.

Always keep in mind that, ***"Where there is love there is life"***.

Best wishes as always,

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

Be a CMA, be a Proud Indian

Vol: 5, No.: 4.
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150 YEARS OF CELEBRATING THE MAHATMA

CONTENTS

150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

GROUP: iii, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

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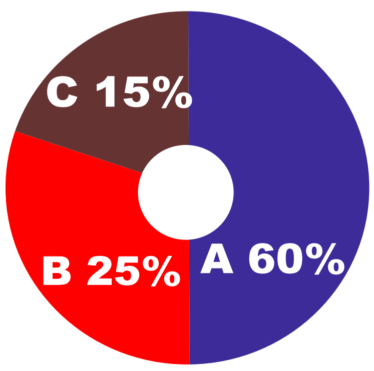
Your Preparation Quick Takes



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

Learning Objectives:

Read the Study Material minutely.

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

POSITION & STATUS OF DIRECTORS

The company being an artificial person , the Board of directors of a company are think tank, decision makers and custodian of the assets. Acting collectively as a Board of directors, they can exercise all the powers of the company except those, which are prescribed by the Act to be specifically exercised by the company in general meeting or with the consent of shareholders.

The directors of a company are its eyes, ears, brain, hands, nerves and other essential limbs, upon whose efficient functioning depends the success of the company. The directors formulate policies and establish organisational set up for implementing those policies and to achieve the objectives with the resources and control, guide, direct and manage the affairs of the company.
The status and role may be listed as follows.

- Organs of the Company
- Decision makers
- Authorised to do everything bonafide the company unless prohibited by the Act/Articles.
- Individual director not competent to act without authority of the Board and shall be personally liable
- Directors are trustees to the shareholders, custodian of the asset and responsible for running of the business
- Prudent of directors' decision shall not be normally questioned
- Can control through Committee of Directors (mandatory for few categories of companies)
- Directors may propose anything for effective management of the company, exploit their knowledge and experience for betterment of the company
- Directors to act bonafide (for the benefit) the company even if nominated by a group of shareholders whose interest is effected
- Any group of shareholders nominating a director cannot force him to take decision in a particular manner.

Hierarchy of Company Management(top down)

Shareholders	Power not given/delegated to Board of Directors. Delegation can be in articles or by General Body resolution.
Board of Directors	Board, by default, has all powers of decision making about the company unless reserved for shareholders.
Chairman	Executive, (full time job):power as per delegation of the company. Non- executive(part time) Chairing the company meeting.
CMD	Exercises both Chairman & MD's power.(full time position)
Managing Director	Has substantial power of Management, subject to superintendence and control of Board)
Whole-time Director	Full time director and employee and looks after specific functions of the company

Types of directors

Type of Directors	Appointing Authority	Situation of Appointment
First Director	Article of Association	At the time of registration
Additional Director	Board of Directors	In between two AGM. On urgent need.
Director	Shareholder in AGM	Normal (on going)
Alternate Director	Board of Directors	When the original Director is out of India for more than 3 months
Independent Director (having no personal or financial interest in the company)	Shareholders in AGM	all listed or Paid up capital 10cr/turnover 100cr/outstanding loan, debenture, deposit >50cr.
Type of Directors	**Appointing Authority**	**Situation of Appointment**
Directors appointed by small shareholders	Small shareholders who holds shares of nominal value of not more than twenty thousand rupees	In AGM. Any Listed company may upon notice of atleast 1000 small shareholders or 1/10th of the total no. of such shareholders, whichever is lower
Director appointed/nominated by financial institute/Govt.	Nominated by financial institute appointed by shareholders at AGM	Where loan has been taken from the institution, equity investment in the company
Shadow Director	Legally not a director	Person who control the affairs or majority of the directors

Composition of Board of Directors

Subject to above types of Directors in a company, the composition shall be as follows.

Maximum no. of Directors – 15
Minimum no. of Directors – 2 (in the case of private company)
- 3 (in the case of public company)

Above 15 requires approval of shareholders by special resolution.

(Directors appointed by Tribunal and Central Govt. shall not be counted for total number of directors.)

ROTATIONAL AND NON-ROTATIONAL DIRECTORS

At least 2/3rd shall be eligible to retire by rotation in every AGM.
Out of 2/3rd, 1/3rd must retire in every AGM.

(Directors appointed by CG, NCLT, FI/Banks shall not be taken in to account for calculating the number of rotational directors)

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STRATEGIC FINANCIAL MANAGEMENT (SFM)

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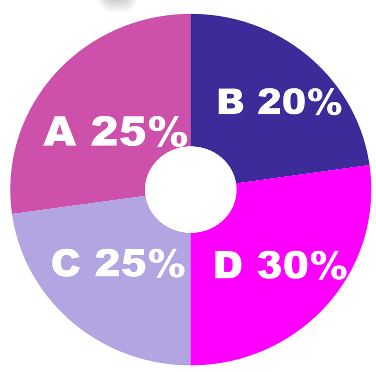
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

Strategic Financial Management

Study Note 1 : Investment Decision, Project Planning and Control

Modified Internal Rate of Return:

Traditional IRR suffers from two important limitations. Firstly, IRR assumes that the future project cash flows will be reinvested at IRR itself for the remaining life of the project which is not justified. As a result of its faulty assumption regarding the reinvestment rate, IRR produces too much optimistic result for any project. Secondly, in case of non-conventional cash flow projects i.e. projects with cash outflow in multiple periods, there may be more than one IRR. Such a result may create confusion in making any decision.

In order to avoid the above two limitations and also to resolve the conflict between NPV and IRR methods, a new method known as Modified Internal Rate of Return (MIRR) method is suggested. MIRR is defined as the discounting rate which equates the present value of the aggregate future value of all cash inflows compounded at the cost of capital with the initial investment.

The steps for calculating MIRR are as follows –

(i) Calculate the future value of each cash inflow from the project by using cost of capital as the compounding rate.
(ii) Calculate the aggregate future value (may be called terminal value)
(iii) Calculate initial investment (in case of conventional cash flow project) or present value of all cash outflow (in case of non-conventional cash flow project).
(iv) Determine the discounting rate that equates the present value of the aggregate future value with the initial investment or present value of all cash outflow. Such rate will be the MIRR.

A direct formula for MIRR can be obtained as follows –

$$\text{Aggregate PV of cash outflow or Initial Investment} = \frac{\text{Aggregate FV of Cash Inflow}}{(1 + \text{MIRR})^n} \quad \text{(Here, n = project life).}$$

$$\text{Therefore, MIRR} = \sqrt[n]{\frac{\text{Aggregate future Value of Cash Inflow}}{\text{Aggregate Present of Cash Outflow}}} - 1 \quad \text{(For Non-conventional cash flow)}$$

$$\text{or, MIRR} = \sqrt[n]{\frac{\text{Aggregate futute Value of Cash Inflow}}{\text{Initial Investment}}} - 1 \quad \text{(For conventional cash flow).}$$

- **Illustration 16:**

From the following information calculate the MIRR of the project.
Initial Outlay Rs. 100000, cost of capital 12% p.a. Life of the project 5 years.
Cash inflows from the project are Rs. 20000, Rs. 30000, Rs. 40000, Rs. 50000 and Rs. 30000.

Solution:

Calculation of aggregate future value

Year	CIAT (Rs.)	Years for Investment	FVIF@12%	FV (Rs.)
1	20000	4	1.5735	31470
2	30000	3	1.4049	42147
3	40000	2	1.2544	50176
4	50000	1	1.12	56000
5	30000	0	1	30000
				209793

$$\text{Now, MIRR} = \sqrt[n]{\frac{\text{Aggregate futute Value of Cash Inflow}}{\text{Initial Investment}}} - 1$$

$$\text{Or, MIRR} = (209793 \div 100000)^{\frac{1}{5}} = -1$$

$$\text{Or, MIRR} = (2.09793)^{\frac{1}{5}}$$

Or, MIRR = 1.15979 -1 (applying scientific but non programmable calculator)
Or, MIRR = 0.15979 i.e. 15.98%
Note: the rule for selection remains the same as the traditional IRR method.

Terminal Value Method:

Both NPV and IRR methods are often criticized due to the assumption of a constant reinvestment rate. While NPV method assumes that future cash flows will be reinvested at the minimum required rate of return i.e. cost of capital, IRR method assumes that they will be reinvested at IRR itself. However, in practice it is hardly possible to reinvest future cash flows at an agreed upon rate. In order to overcome such limitation a new method is suggested. This is known as Terminal Value method. Under this method future cash flows are first compounded at the estimated reinvestment rate for the rest of the life of the project. The aggregate future value of all cash inflows is then discounted at an appropriate rate of return (generally cost of capital) to determine the present value. Finally, this present value is compared against the initial outlay for final selection.

Steps to be followed: The steps to be followed under Terminal Value approach are –

a) Calculate the future value of each cash inflow by compounding them at the estimated reinvestment rate for the remaining lifespan of the project.

b) Calculate the aggregate of all future values thus obtained. This is called terminal value.

c) Calculate the present value of terminal value obtained above by using an appropriate discounting rate, preferably the cost of capital.

d) Compare the present value as obtained above with the initial outlay or present value of cash outflow of the project for final selection based on the surplus available, if any.
Consider the following illustration.

- **Illustration:**

A company is contemplating an investment project of 4 years with an initial outlay of Rs.120000. The cash inflows estimated from the project are Rs. 30000, Rs. 40000, Rs. 30000, and Rs. 36000. The estimated rates at which the above cash flows will be reinvested are:

Year End	1	2	3	4
Reinvestment Rate	8	9	10	9

The cost of capital is 10% p.a. Analyze the viability of the project under terminal value method.

Solution:

Calculation for Terminal Value

Year	Cash Inflows (Rs.)	Re-investment Rate	Years of Reinvestment	FVIF	Future Value (Rs.)
1	30000	8%	3	1.26	37800
2	40000	9%	2	1.881	75240
3	30000	10%	1	1.1	33000
4	36000	9%	0	1	36000
				Terminal Value	182040

So, Present Value of Terminal Value = Terminal Value PVIF (Cost of capital, Years)
= Rs. 182040 × PVIF (10%, 4)
= Rs. 182040 × 0.683
= Rs. 124333
Since the Present Value of Terminal Value (Rs. 124333) is higher than the initial outlay of Rs. 120000, the project is advisable.

Selection Rule:

a) **Single Project:** Under Terminal value method a project is accepted if the present value of aggregate future value of cash inflows (or terminal value) is more than the initial outlay and vice-versa.
b) **Mutually Exclusive Projects:** In case of mutually exclusive projects, the project that offers the highest surplus of PV of terminal value over the initial outlay is ultimately selected.

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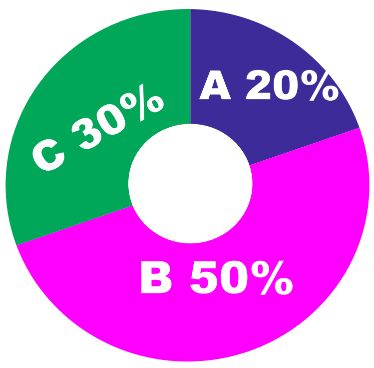
GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT- DECISION MAKING (SCMD)

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?

Standard costing

01.00 Concept

In principle, Standard Costing is Engineered Costing. History had it that the Scientific Management Principles evolved by F.W. Taylor and other prominent engineers had provided the basis platform for the development of standard cost systems.

CIMA, London, defines Standard Costing as a Control technique that reports variances by comparing actual costs to pre-set standards thereby facilitating action through management by exception. Standard Cost is defined as a planned unit cost of a product, component or service. The control point, obviously, is 'Management by Exception through the process of Planning'.

A standard is a stipulated norm, something set up and established by an authority as a rule for the measure of quantity, weight, extent, value, or quality. Standards are set based on predetermined physical inputs of materials, labour, machine hours, power and other resources which should be consumed while manufacturing a product. Accordingly, standard costs stand for predetermined costs; they are the target costs, which should be incurred under the normative operating conditions.

In standard costing system, the standard costs for the standard and the actual output for a particular period are traced to the functional managers who are responsible for the various operations of a responsibility centre. The actual costs for the same period are also traced to the same responsibility centre. The two costs, the standard and the actual, are then compared and the variance between the two is analysed and reported to the cost controllers. The designated controllers keep initiating corrective actions, wherever needed on a continuous basis. The system, thus, facilitates not only concurrent monitoring, but as also concurrent control of costs whereby competitive advantage is gained.

A standard costing system consists of the following four key elements:

(i) Setting standards for each of the operations.
(ii) Comparing the actual performance with the standard performance.
(iii) Analyzing and reporting variances arising from the difference between the actual and the standard performance.
(iv) Investigating significant variances and taking appropriate corrective action.

Standard costing is considered as perfectly suitable in operations, where activities consist of a series of common or repetitive operations. Traditionally standard costing systems are used to support the manufacturing industry; but they can, as well, be extended effectively to multiple kinds of enterprises.

With regular analysis of variances, standard costing enables cost managers to compare expectations to actual costs and profit margins. Underlying causes of those variances can then be addressed. By recalibrating costs and prices, manufacturers can sustain themselves amidst uncertainties.

02.00 Problem for Practice

Problem

The standard labour component and the actual labour engaged in a week for a job are as under:

Particulars	Skilled workers	Semi skilled workers	Unskilled workers
Standard no. of workers in a gang	32	12	6
Standard wage rate per hour (Rs.)	3	2	1
Actual no. of workers employed in the gang during the week	28	18	4
Actual wage rate per hour (Rs.)	4	3	2

During the 40 hour working week the gang produced 1800 standard labour hours of work. Calculate Labour efficiency variance, Mix variance, wage rate variance and labour cost variance.

Solution

Step (i); Analysis of Given Data

Particulars	Standard Data			Actual Data		
	Hours	Rate	Value	Hours	Rate	Value
Skilled	32x40=1280	3	3840	28x40=1120	4	4480
Semi-Skilled	12x40=480	2	960	18x40=720	3	2160
Unskilled	6x40=240	1	240	4x40=160	2	320
Total	2000		5040	2000		6960

Step (ii): Computation of Standard Hours

Being given that during the 40 hour working week the gang produced 1800 standard labour hours of work {as against standard data (construed as revised) hours of 2000}, we may find out the standard hours by adopting the formula:

$$\text{Standard Hours (SH)} = \left(\frac{\text{Standard Hrs.}}{\text{Total Std. Hrs}}\right) \times \text{Standard Hours for the Category}$$

$$\text{SH for Skilled Workers} = \frac{1800}{2000} \times 1280 = 1152$$

$$\text{SH for Semi-Skilled Workers} = \frac{1800}{2000} \times 480 = 432$$

$$\text{SH for Unskilled Workers} = \frac{1800}{2000} \times 240 = 216$$

Step (iii); Analysis of Computed Data

Particulars	SRSH	SRRSH	SRAH	ARAH
Skilled	3x1152 = 3456	3x1280 = 3840	3x1120 = 3360	4x1120 = 4480
Semi-Skilled	2x432 = 864	2x480 = 960	2x720 = 1440	3x720 = 2160
Unskilled	1x216 = 216	1x240 = 240	1x160 = 160	2x160 = 320
Total	4536	5040	4960	6960

Step (iv): Computation of Variances

Labour Mix Variance = (SRRSH - SRAH) = 5040 - 4960 = Rs. 80 (F)
Labour Efficiency Variance = (SRSH - SRAH) = (4536 – 4960) = Rs.424 (A)
Labour Rate Variance = (SRAH – ARAH) = 4960 – 6960 = Rs. 2000 (A)
Labour Cost Variance = (SRSH – ARAH) = 4536 – 6960 = Rs. 2424 (A)

03.00 Quick Take

In an era of global competition, Standard Costing, certainly, continues to be an efficient tool for cost control.

150 YEARS OF CELEBRATING THE MAHATMA

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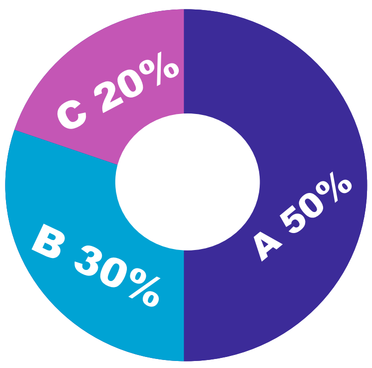
GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Case StudyAnalysis **20%**

Learning Objectives:

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

Thin Capitalization

A company is typically financed or capitalized through a mixture of debt and equity. The way a company is capitalized often has a significant impact on the amount of profit it reports for tax purposes as the tax legislations of countries typically allow a deduction for interest paid or payable in arriving at the profit for tax purposes while the dividend paid on equity contribution is not deductible. Therefore, the higher the level of debt in a company, and thus the amount of interest it pays, the lower will be its taxable profit. For this reason, debt is often a more tax efficient method of finance than equity. Multinational groups are often able to structure their financing arrangements to maximize these benefits. For this reason, country's tax administrations often introduce rules that place a limit on the amount of interest that can be deducted in computing a company's profit for tax purposes. Such rules are designed to counter cross-border shifting of profit through excessive interest payments, and thus aim to protect a country's tax base.

Under the initiative of the G-20 countries, the Organization for Economic Co-operation and Development (OECD) in its Base Erosion and Profit Shifting (BEPS) project had taken up the issue of base erosion and profit shifting by way of excess interest deductions by the MNEs in Action plan 4. The OECD has recommended several measures in its final report to address this issue.

In view of the above, sec. 94B was inserted in line with the recommendations of OECD BEPS Action Plan 4, to provide that interest expenses claimed by an entity to its associated enterprises shall be restricted to 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is less.

The provisions of sec. 94B are enumerated here-in-below:

Applicable to

Indian company, or a permanent establishment of a foreign company in India, being the borrower

- *Permanent establishment* includes a fixed place of business through which the business of the enterprise is wholly or partly carried on.

Conditions

a) The borrower has debt issued by a non-resident, being an associated enterprise of such borrower.

- *Debt* means any loan, financial instrument, finance lease, financial derivative, or any arrangement that gives rise to interest, discounts or other finance charges that are deductible in the computation of income chargeable under the head "Profits and gains of business or profession";

b) He incurs any expenditure by way of interest or of similar nature exceeding ₹ 1 crore;

c) Such expenditure is deductible in computing income chargeable under the head "Profits and gains of business or profession"

Effect

If all the aforesaid conditions are satisfied then, excess interest shall not be deductible in computation of income under the said head.

- Excess interest means lower of the following:

  a) An amount of total interest paid or payable in excess of 30% of earnings before interest, taxes, depreciation and amortisation (EBITDA) of the borrower in the previous year; or

  b) Interest paid or payable to associated enterprises for that previous year

Taxpoint

- *Guarantee*: Where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise.

- *Exception*: The provision of sec. 94B is not applicable to an Indian company or a permanent establishment of a foreign company which is engaged in the business of banking or insurance.

- *Carry forward*: Where for any assessment year, the interest expenditure is not wholly deducted against income under the head "Profits and gains of business or profession", so much of the interest expenditure as has not been so deducted, shall be carried forward to the following assessment year(s), and it shall be allowed as a deduction against the profits and gains, if any, of any business or profession carried on by it and assessable for that assessment year to the extent of maximum allowable interest expenditure.

- *Maximum carried forward*: No interest expenditure shall be carried forward for more than 8 assessment years immediately succeeding the assessment year for which the excess interest expenditure was first computed.

Example

Computation of interest expenses disallowed u/s 94B: ₹ in crore

Particulars	Case 1	Case 2	Case 3
EBIDTA of the Indian Borrower	100	100	100
30% of the above **[A]**	30	30	30
Interest payable to associated enterprise **[B]**	35	Nil	15
Interest payable to non-associated enterprise **[C]**	Nil	35	20
Total Interest expense incurred **[D = B + C]**	35	35	35
Total interest expenses incurred in excess of 30% of EBITDA **[E = D – A]**	5	5	5
Interest payable to associated enterprise **[B]**	35	Nil	15
Excess interest [lower of (E) and (B)] being disallowed u/s 94B	**5**	**Nil**	**5**

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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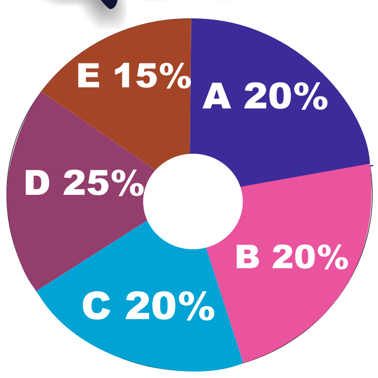
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business 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.

OVERVIEW OF GROUP ACCOUNTING

In this issue I shall discuss Business combination and consolidated Balance Sheet together starting from the base of pre-Ind AS accounting.

We were accustomed to the merger and acquisitions, to amalgamation including absorption and external reconstruction. In the Ind AS accounting we are not getting any references of the old terms in the available literature. The economic events or transactions that were recorded under accounting of amalgamation-are they remaining same as before or they are no more in existence?

In fact, the economic events or transactions that were accounted under accounting of absorption, amalgamation and external reconstruction continue to exist and continue to be accounted under Business combination as per Ind AS 103.Further, Ind AS 103 on Business combination expands the scope of accounting to some new areas of accounting which were not done in pre-Ind AS accounting.

So, let me give more attention to the expansion of the scope of accounting of Business combination under Ind AS 103. Indeed, along with Ind AS 103 some other Ind AS s also would be included in the discussion.

When a company A acquires control of another company B by purchase of shares of B, it is a business combination and in books of A, Investment a/c will be debit. In the Pre-Ind AS accounting this was done, and in Ind AS accounting this will also be done. But additional scope of Ind AS accounting is that there will be an entire lot of additional accounting in books of A. The recording of Investment a/c will be done in A's individual set of accounts and the following recording will be made by A in its consolidated set of accounts:

Identified Assets (of B)	Dr.	
Goodwill	Dr.	
To Identified Liabilities		Cr.
To Consideration		Cr.
To Non-Controlling Interest		Cr.
To Previously held Investment		Cr.

Thus, although B continues to exist with its assets and liabilities carried in its books of accounts, A in its consolidated set will recognise the assets and liabilities identified and recognise non-controlling interest and goodwill and cancel any previously held investment. If these accounts so recognised are reflected in B's own balance sheet, it shows the consolidated balance sheet of the group of A and B. This is the additional accounting for business combination which was not required in pre-Ind AS accounting.

The old accounting of recording Investment a/c in books of A is still required as before, in the individual set of accounts of A and such individual set is termed as 'Separate Set'.

Thus in consolidated balance sheet of the group of A and B, along with A's balance sheet items, assets and liabilities identified under business combination, goodwill and non-controlling interest will be consolidated.

Further, in separate balance sheet (Standalone or individual balance sheet) of A, Investment a/c will appear same as pre-Ind AS accounting.

In the books of B there is no change for Ind AS. There would be no accounting at all.

Then how the pre-Ind AS absorption should be recorded as per Ind AS?

A takes over B such that B ceases to exist. Then B needs to close all its accounts through Realisation a/c. Under Ind AS regime the same accounting will be done.

In the books of A there is no question of any consolidated set of accounts. In A's individual set, assets and liabilities identified will be recognised with goodwill but no non-controlling interest. As there is no consolidated set, A's own set of accounts is called individual set (not separate set).

Next, how should the pre-Ind AS amalgamation be dealt with under Ind AS regulation?

A and B amalgamated into C, where C is newly born and A and B are liquidated. C acquires control of A and B, but the parties who were in control of A and B are now controlling C. Thus effectively the parties controlling the business before and after the business combination are same.

This kind of business combination is called business combination under common control. The accounting will be done in books of C as per the requirement under Appendix C of Ind AS 103. The books of accounts of A and B will be closed as usual.

The old accounting for external reconstruction should also be modified for considering the transaction as a business combination under common control.

Thus we get two kinds of business combination under Ind AS 103:

(I) Business combination
(II)Business combination under common control

In case (I) acquisition method is followed,
In case (II) pooling of interest method is followed

At this point you can revisit the accounting under acquisition method and under pooling of interest method from the preceding issues and from study materials. But I shall continue this discussion on the additional matters of Ind AS. There is one new concept about 'Reverse Acquisition'. When A acquires majority shares of B or takes over B entirely, ordinarily it is understood that shareholders of A acquires control of the business of B. But in certain circumstances it may happen that the shareholders of B get control over the group.

Suppose, A acquires 80% shares of B and satisfies the consideration by issue of 3 shares of A for every share of B. Market price of Rs.10 share of A is Rs. 25.

	A (Rs.)	B (Rs.)
Net Assets	30,000	20,000
Equity	30,000	20,000
No. of Equity Shares	1000	750

Thus, 80% of 750 = 600 shares of B are acquired and A issues 600x3=1800 shares to B. Now, shareholders of A hold 1000 shares and shareholders of B hold1800 shares. Effectively, the group is controlled by B. This is a case of reverse acquisition. In such case accounting will be done in books of A, the legal acquirer, but it would be assumed that B is the accounting acquirer and accordingly assets & liabilities would be identified, consideration would be calculated.

In case of amalgamation also 'reverse acquisition' may take place when it is indicated that after A and B amalgamated into C, shareholders of B would control C. Although C is the legal acquirer, in its books recording will be done assuming that B is the acquirer. Thus defacto acquirer is considered the accounting acquirer and dejuri acquirer is the legal acquirer.

In the next issue I shall take up illustrations.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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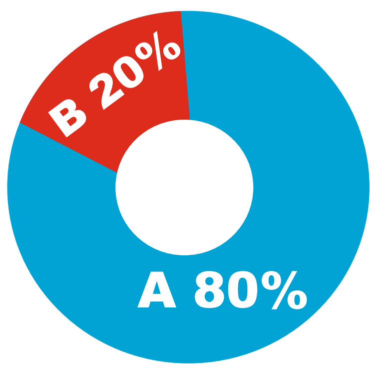
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

- Persons required to maintain accounts under GST Act
- Details to be maintained by registered tax payers
- Requirements and applicability of various records
- Electronic ledgers
- Generation and maintenance of electronics records
- Major advantages of maintaining records
- Audit of accounts
- Items for calculation of turnover

INDIRECT TAX

As per the Section 35 of the CGST Act following persons whether registered or not, has the responsibility to maintain the specified records-

- The owner
- Operator of warehouse or godown or any other place used for storage of goods
- Every transporter

Every registered taxpayers under GST Act require to maintain in regards to the followings -

1.Stock – Every registered taxpayers who are not registered under the Composition scheme must maintain accounts of stock with regards to goods received as well as supplied by such taxpayer which should includes the following details -

a) Opening balance of stock
b) Goods received
c) The goods supplied
d) Goods lost, stolen or damaged
e) The, Goods written off or given in the form of gift or free samples
f) Stock balance including raw materials, finished goods, wastage etc.

2.Advances – The taxpayers required to keep separate records of the advances received, advances paid and all adjustments relevant to the course of business made in this respect.

3. ITC – Detail records of taxability arise from Input tax credit with regards to -

a) Amount of tax payable
b) Tax collected
c) Tax Paid
d) Amount of Input Tax
e) Input Tax availed
f) Register of Tax Invoice
g) Debit Notes, Credit Notes, Delivery Challan issued or received during the tax period

4.Suppliers, Customers and Warehouse details – Maintenance of the records of –

a) Names and addresses of the vendors or suppliers from whom goods or services are received
b) Names and Addresses of customers to whom goods or services are supplied
c) Address of the premises where goods are stored and also the goods stored during transit together with the information of stock stored in such a premise

5.Goods Produced – Proper accounts to be maintained regarding the details of goods produced for the periods.

The details should contain the information in regard to raw materials or services utilized to produce goods and other details such as waste and other by products.

6. Services Supplied - Proper accounts to be maintained regarding the details of services supplied for the periods.

a) Goods used to provide such services
b) Input services used
c) Services rendered

7. Works Contract – Proper accounts of the all works contracts carrying out by registered taxpayers to be maintained which must includes -

a) Names and addresses of persons on whose behalf such a contract is being implemented
b) Amount, quantity as well as other details of goods or services received to implement such a contract
c) Amount, quantity and other details of goods or services used in implementing such a contract
d) Information of the payment received in respect of such a contract
e) Names and addresses of the vendors from whom goods or services were received by such a taxpayer

As per the Rule 56(1) of CGST and SGST Rules, 2017 every registered person required to maintain in addition to the particulars mentioned in section 35, a true and correct accounts of all import and export of the goods or services or of supplies attracting payment of tax on reverse charge along with the relevant documents including the followings –

- Invoices
- Bills of supply
- Delivery challans
- Credit notes
- Debit notes
- Receipts Vouchers
- Payment vouchers
- Refund vouchers

The requirements appended as below

Books of Accounts	Requirements	Applicability
Production Register	Accounts should contain detail of goods manufactured in a factory or in a production uinit.	All Assessee engage in production and carrying out manufacturing activities.
Purchase Register	Details of purchases made within the relevant tax period for manufacturing of goods or provision of services	Every Assessee
Sales Register	Accounts of all the sales required to be kept for a relevant tax period.	Every Assessee
Stock Register	This register should contain accurate stock of inventories which can be verified at any given point of time	Every Assessee
Input Tax Credit	The details of Input Tax Credit availed for a relevant tax period required to be manitained.	Every Assessee
Output Tax Liability	This register is required to contain the details of GST liabilities outstanding needed to be paid directly or to be adjusted against input credit.	Every Assessee
Output Tax Paid	This register is required to contain the details of GST paid for a particular tax period	Every Assessee
Other Records	Government can further specifically ask to keep the accounts and additional records by way of a circular, notification etc.	Government notification towards specific business.

Apart from the above mentioned records, a taxpayer is also needed to maintain the below mentioned accounts -

1) Input and Output CGST account
2) Input and Output SGST account

3) Input and Output IGST account

GST Electronic Ledger required to be maintain on the GSTN portal, under the following categories –

1. **Electronic Cash Ledger**:- The record of cash deposited by the taxpayer in order to settle or make online payment for tax liabilities. It serves as an e-wallet to the taxpayer. In the taxpayer's electronic cash ledger cash to be deposited as adding money to a wallet. The added cash balance can will be used for meeting up other liabilities.

2. **Electronic Liability ledgers**:- This ledger will reflect the taxpayer's total tax liability for a particular month after netting-off which includes

1) Tax applicable [based on return forms]
2) Reversal of ITC
3) Interest or late fees (if any)

3.Electronic Credit Ledger:- The electronic record depicts the self-assessed Input Tax Credit on purchases claimed by the taxpayer. This will be reflected in three categories – CGST , SGST and IGST . The input tax credit balance in this electronic credit ledger account can then be utilized by the taxpayer for paying tax only. Other tax related payments such as interest, penalty fees, etc. cannot be made through this account. These records include ITC available on

1) Inward Supplies
2) Distribution from input services distributor (ISD)
3) The input of stock held/semi-finished goods or finished goods held in stock

Generation and maintenance of electronic records

As per the Rule 57(1) of CGST and SGST Rules 2017 proper electronic back up of relevant records to be maintained and kept in such a manner so that in case of any destruction or damages of records due to accidents or any natural causes can be retrieved within a reasonable time, so that on demand those can be produced in hard copy or any electronic readable format by registered person.

The records so maintained shall be authenticated by means of a digital signature as per the Rule 56(15) of CGST and SGST Rules, 2017.

The major advantages of maintaining these accounts and records are

- It helps to keep a track of GST transactions.
- Help to set off the input tax on service directly with output tax on the sale.
- Help to calculate tax liability precisely.

Audits

If the annual turnover of a registered taxpayer exceeds Rs. 2 crores in a financial year , he is required to get his accounts audited by a Chartered Accountant or Cost Accountant every year.

A financial year generally covers the 12-month period beginning from 1st April of a calendar year to 31st March of the next calendar year.

Aggregate turnover can be calculated as below –

Value of all taxable inter state and intra state supplies	xxxxx
Add : Exempt supplies	xxxxx
Add : Export supplies of all goods and services	xxxxx
Aggregate turnover	**xxxxx**

Following items to be considered for calculating the turnover -

- All taxable (inter-state and intra-state) supplies other than supplies on which reverse charge is applicable
- Supplies between separate business verticals.
- Goods supplied to/received from job worker on principal to principal basis.
- Value of all export/zero-rated supplies.
- Supplies of agents/ job worker on behalf of the principal.
- All exempt supplies. e.g. Agricultural produce supplied along with branded ready-to-eat food.

- All taxes other than those covered under GST e.g. Entertainment Tax paid on the sale of movie tickets.

Following items to be excluded while calculating turnover:

- Inward supplies on which tax is paid under reverse charge.
- All taxes and cess charged under Goods and Service Tax like CGST, SGST or IGST, Compensation Cess.
- Goods supplied to or received back from a Job Worker.
- Activities which are neither supply of goods nor service under schedule III of CGST Act.

YEARS OF CELEBRATING THE MAHATMA

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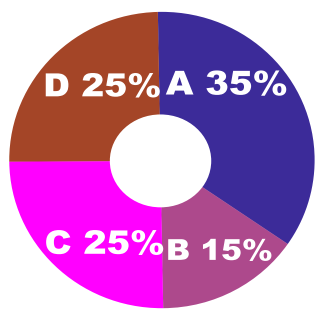
GROUP: iv, PAPER: 19

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

Product codes and the identification of products for Maintenance of Cost Records and Cost Audit.

1. Introduction

The statutory auditors of a Company has to report on various paras in terms of of CARO 2020 issued by Ministry of Corporate Affairs vide order dated 25.02.2020. This order is effective from the financial year 2019-20. As per Para 3(vi) of the order the auditor has to specifically report -

whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained;

Para 3 of the Companies (Cost Records and Audit) Rules, 2014, define the criteria for applicability of maintenance of Cost records in a company. The company needs to satisfy two conditions.

a. 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 forming part of the Rules and 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 accounts.

b. The product so manufactured by the company or the services rendered must be classified under CTA Code in 8 (eight) digits.

2. Pre-GST & Post-GST Period:

Prior to FY 2017-18, pre-GST period, the classification of products to be referred for applicability of maintenance of Cost records and Cost Audit was Central Excise Tariff Act 1975 (CETA). The product number was 8 digits – First two digits referred to the chapter number of the said act, next two digits referred to the heading of the products, the rest of the 4 digits referred to the sub-heading of the products. So far as maintenance of Cost records and Cost Audit is concerned, the first four digits of CETA were relevant for CRA-2 (Form for Appointment of Cost Auditor) and CRA-4 (Form for Filing of Cost Audit Report).
Now during the post-GST period, the necessity of CETA does not remain any more since the Excise Acts are non-existent except for those products that are kept outside the preview of GST. But after introduction of GST, even those products that are outside the preview of GST, requires to comply with the section 148 of the Companies Act, 2013 and Companies (Cost Records & Audit Rules) 2014, if it attracts the provision. So, now the classification of Customs Tariff Act 1975 (CTA) is being followed. The classification of products under CTA is same as that of CETA - product number consists of 8 digits – First two digits referred to the chapter number of the said act, next two digits referred to the heading of the products, the rest of the 4 digits referred to the sub-heading of the products.

As per the Rule 2 of the Companies (Cost Records & Audit) Rules 2014 (Application of Cost Records), it mentions the eight digits of the product's classification as per CTA determine the cost records to be maintained for that product (s). The following example clarifies how the cost records are maintained and cost audit reporting is to be done as per the provisions of Companies (Cost Records & Audit) Rules 2014.

Example:

Under Regulated Sector – 3102 - Organic surface Active Agents
It contains other various sub-headings containing specific products as follows

- 3012-2100 : Code for Urea
- 3012-2100 : Code for Ammonium sulphate
- 3012-2910 : Code for Ammonium Sulphonitrate

If a company manufactures all of the above three products, then it has to maintain cost records for each of the above products. But so far as reporting is to be done, then a single cost sheet is to be prepared consolidating the cost sheets of all the three individual products and a single cost sheet is to be filed under the CTA code – 3012.
Similarly the GST follows the system of HSN – Harmonised System of Nomenclature. The following paragraph explains the reason of adaptation of CTA is preferred over the HSN of GST.

3. What method of classification to follow?

So, to identify the products for maintenance of cost records and cost audit, the Customs Tariff Act 1975 (CTA) has to be referred as per the Notification GSR-1526 (E) dated 20th December 2017. This change, as per notification, shall be retrospectively applied from 1st July 2017.

The following are the effects of such change w.r.t. Companies (Cost Records & Audit) Rules 2014 –

a) For Rule 3 – The regulated and the unregulated sectors are identified by CTA heading instead of CETA heading.
b) For Rule 4 sub rule 1 – The applicability of product for maintenance of cost records and cost audit to the products are to be identified by CTA heading instead of CETA heading.

So, the companies are to refer to the CTA 1975 and follow the tariff up to eight digits.

4. Benefit of following CTA instead of GST's HSN.

(a) It is to be noted that the classification as per CETA and CTA are the same and can be referred to interchangeably. However, the description of the products in both CETA & CTA classification are described in a different way but both characteristically denote the same product.

Code in CETA & CTA	Description in CETA	Description in CTA
2709	PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS	PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS
3102	MINERAL OR CHEMICAL FERTILISERS,	MINERAL OR CHEMICAL FERTILISERS,
5303	JUTE AND OTHER TEXTILE BAST FIBRES	JUTE AND OTHER TEXTILE BAST FIBRES

a) Moreover, if we refer to the Rule 3 of the Companies (Cost Records & Audit Rules) 2014, before the amendment on 1st July 2017 (given above), the products were listed in a continuous method. For e.g. –

i) In Regulated Sectors – Serial no 3 – Petroleum products – CETA heading 2709 to 2715
ii) In Regulated Sectors – Serial no 4 – Drugs & Fertilizers - CETA heading 2901 to 2942 ; 3001 to 3006
iii) In Non-Regulated Sectors – Serial no 1 – Machinery & Mechanical Appliances - CETA heading 8401 to 8402; 8801 to 8805; 8901 to 8908

There are many more of such instances where the CETA headings are mentioned in continuous format.

Since there is similarity in listing of product codes in CETA & CTA, as established above, it is more feasible to refer to CTA for identifying the classification of products for the purpose of Cost Audit.

5. Practical applications of the CETA & CTA classification w.r.t. Cost Audit

The classification of products are required in the following forms:

a) Form CRA 2 – Form for Appointment of Cost Auditor:
The Cost Auditor are appointed for a particular product that attracts the provision of Section 148 of the Companies Act 2013. The first four digits of CTA code are to be mentioned in the form.

b) Form CRA 4 – Form for filing of Cost Audit Report:
The Cost Audit Report, Annexures to the Cost Audit Report and other relevant attachments are to be filed to the Central Government in this form. This form also requires to be mention the first four digits of CTA code of the products which are audited as well as for the products that are not audited.

c) Annexure to The Cost Audit Report:
The Part A – 2 (10) requires to disclose the eight digits of CTA code of the product that is being audited.

d) XBRL software:
The software for generation of the XML instance document for filing the Cost Audit Report in form CRA 4 requires to mention the eight digits of product CTA code of the products under audit.

It is of utmost importance that the individual products that are manufactured by the company and its CTA codes are to be identified for the compliance of the provisions of Cost Records and Cost Audit.

150 YEARS OF CELEBRATING THE MAHATMA

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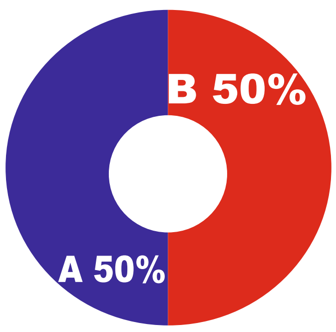
GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

Valuation of Intangible Assets: Recognition and Measurement

Intangible Assets (As per AS 38)

An intangible asset is an identifiable non-monetary asset without physical substance. There are important features of intangible assets:

i) It should be identifiable;
ii) It should be controlled over the assets; and
iii) It should generate future economic benefits flowing to an enterprise.

Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles).

Intangible assets are a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes of intangible assets may include:

(a) Brand names;
(b) Mastheads and publishing titles;
(c) Computer software;
(d) Licences and franchises;
(e) Copyrights, patents and other industrial property rights, service and operating rights;
(f) Recipes, formulae, models, designs and prototypes; and
(g) Intangible assets under development (As per AS 38).

Following assets do not consider as intangible assets as per Ind AS 38.

(1) Intangible assets held by an entity for sale in the ordinary course of business (Ind AS 2, Inventories).
(2) Deferred tax assets (Ind AS 12, Income Taxes).
(3) Leases that are within the scope of Ind AS 17, Leases.
(4) Assets arising from employee benefits (Ind AS 19, Employee Benefits).
(5) Financial assets as defined in Ind AS 32. The recognition and measurement of some financial assets are covered by Ind AS 110, Consolidated Financial Statements, Ind AS 27, Separate Financial Statements, and Ind AS 28, Investments in Associates and Joint Ventures.
(6) Goodwill acquired in a business combination (Ind AS 103, Business Combinations).
(7) Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104, Insurance Contracts. Ind AS 104 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets.
(8) Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.
(9) Assets arising from contracts with customers that are recognised in accordance with Ind AS 115, Revenue from Contracts with Customers

Recognition of Intangible Assets (As per AS 38)

The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) the definition of an intangible asset
(b) the recognition criteria

An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
(b) the cost of the asset can be measured reliably (Para 21).

An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset (Para 22).

An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence (Para 23).

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

Measurement of Intangible Assets

Valuation of intangible assets is a complex exercise. The non-physical form of intangible assets makes it difficult to identify the future economic benefits that the enterprise can expect to derive from the intangible assets. Many intangible assets do not have alternative use and cannot be broken down into components or parts for resale. Further, intangible assets normally do not have an active market. Many times, they are not separable from the business and hence it becomes difficult to value them separately from the business.

An intangible asset shall be measured initially at cost.

Models: As per Ind AS 38, an entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost Model (Para 74 of Ind AS 38)

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation Model (Para 75 of Ind AS 38)

After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under the standard AS 38, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

The revaluation model does not allow:

(a) The revaluation of intangible assets that have not previously been recognised as assets; or
(b) The initial recognition of intangible assets at amounts other than cost.

Issues in Valuation of Intangibles

Certain issues relating to some of the intangibles are given below:

(a) Patents: Jurisdictional coverage, status of registrations, breadth of patent claims, alternatives to the patented invention, risks of infringement and invalidity, and the possibility of blocking patents.

(b) Trade Secrets: The reasonableness and effectiveness of measures taken to ensure secrecy; the possibility that the secret could be legitimately discovered by competitors through independent research; and if potentially patentable, the potential benefits, costs and risk of patenting versus holding the trade secret as a trade secret.

(c) Copyrights: whether the copyright is for the original work, or for a particular derivative of it.

(d) Trademarks: Ability to be extended to related products or services without infringing on the trademarks of others, the nature and status of any registrations, the possibility of abandonment due to non-use, and the possibility that a mark might have become generic.

Valuation of Goodwill

There are various methods for valuation of goodwill of a business of which the following are of common use:

Few years' Purchase of Average Profits Method: Under this method, goodwill is valued on the basis of an agreed number of years' purchase of the average maintainable profit. The word maintainable indicates several adjustments in respect of the factors which might have influenced abnormally the profits of the years over which the average is taken. If in any year there is an exceptional opportunity or an exceptional expense or absence of expense, the profit for the year has to be so adjusted as to get it free from such exceptional influences.

Super Profits Method: Under this method average super profit is ascertained. Goodwill is calculated at a few years' purchase of the super profit of the concern. The number of years to be taken for consideration depends upon the nature of the business, the steady or fluctuating nature of the profit and also the nature of goodwill.

Annuity Method: Under this method the basis is super profit. Once the super profit is ascertained, the present value of goodwill can be ascertained by the following formula:-

V=a/i[1-(1+i)^-n)] ,or,
V=a/i[1-1/(1+i)^n]

Where,
V = the present value of the annuity or the value of goodwill in this case
a = the annuity or the annual super profit in this case
n = the number of years the annuity would be enjoyed
i = the rate of interest per rupee per year

Capitalization Method:

Capitalization of Average Profit: Under this method, the average annual profit is to be ascertained after providing for reasonable management remuneration. This profit should be capitalized at the rate of reasonable return to find out the total value of business. The value of goodwill will be the total value of business minus its net assets. If, however, the net asset is greater there will be no goodwill, rather there is negative goodwill.

Capitalization of Super Profit: Under this method, the average super profit is capitalised at a certain rate of interest and this capitalized amount becomes the value of goodwill.

Example

Negotiation is going on for transfer of X Ltd. on the basis of Balance Sheet and the additional information as given below:

Balance Sheet of X Ltd.
As on 31st March 2020

Equity and Liability	Amount (Rs.)	Assets	Amount (Rs.)
(1) Shareholders Fund:		**(1) Non-Current Assets:**	
(a) Share Capital		**(a) Fixed Assets**	
Equity Share Capital of Rs. 10 each 10,00,000	20,00,000	(i) Tangible Land and Building	6,00,000
(b) Reserve & Surplus	8,00,000	Plant and Machinery	16,00,000
(2) Current Liabilities:		(ii) Intangible - Goodwill	2,00,000
Trade Payables - Sundry Creditors	6,00,000	b) Non-Current Investments	2,00,000
		(2) Current Assets:	
		(a) Inventories	4,00,000
		(b) Trade Receivables - Debtors	3,30,000
		© Cash and Cash Equivalents	1,00,000
Total	34,00,000	Total	34,00,000

Profit before tax for 2019-20 amounted to Rs.12,00,000 including Rs.20,000 as interest on investment. However, an additional amount of 1,00,000 p.a. shall be required to be spent for smooth running of the business.

Market value of land & building and plant & machinery are estimated at Rs.18,00,000 and Rs. 20,00,000 respectively. In order to match the above figures further depreciation to the extent of Rs.80,000 should be taken into consideration.

Income tax rate may be taken at 30%. Return on capital at the rate of 20% before tax may be considered as normal for this business for the present stage.

For the purpose of determining the rate of return, profit for this year after the aforesaid adjustments may be taken as expected average profit. Similarly, average trading capital employed is also to be considered on the basis of position in this year.

It has been agreed that a three years' purchase of supper profit shall be taken as the value of goodwill for the purpose of the deal.

You are requested to calculate the value of the goodwill of X Ltd.

Answer:

Calculation of Valuation of Goodwill of X Ltd.

Capital employed on 31st March, 2020		Amount (Rs.)
Land & Building		18,00,000
Plant & machinery		20,00,000
Stock		4,00,000

Debtors		3,00,000
Cash & bank		1,00,000
Less: Sundry creditors		6,00,000
		40,00,000
Average maintainable trading profit for the year ending 31st March, 2020		
Net profit before tax		12,00,000
Less: Additional depreciation	80,000	
Less: Additional recurring expenses	1,00,000	
Less: Non-operating income (interest on investment)	20,000	2,00,000
		10,00,000
Less: Provision for taxation @30% of Rs. 10,80,0000		3,24,000
		6,76,000
Average trading capital employed		
Closing capital employed		40,00,000
Less: 50% of average maintainable trading profit after tax		3,38,000
		36,62,000
Super Profit3662000		
Average maintainable operating profit		6,76,000
Less: Normal profit 14% of capital employed Rs. 36,62,000		5,12,680
Valuation of goodwill		
Super profits Super profits		1,63,320
Goodwill at 3 years purchase of super profits		4,89,960

Note:

1. It has been assumed that additional depreciation arising out of revaluation of assets is not deductible for calculating provision for taxation.

2. Since tax rate is 30% and normal pre-tax rate being 20% the after tax normal rate of return will be 14%.

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

150 YEARS OF CELEBRATING THE MAHATMA

SUBMISSIONS

Dear Students,

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

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

Respected Mam,

Myself **Shreekant Prasad,** CMA Final Student, bearing Registration No—**13081000017 and I have attended** CMA FINAL EXAM, DEC 2019,,

I am really thankful to you and our CMA INSTITUTE for the kind support and help to provide additional materials for exam preparation, like- Supplementary, Work book, MTP, and Supplementary in accounts Paper-17 and also addition materials for new patterns
and also- monthly Students final E bulletin, it was really helpful so much for final revision.

To mention, in this term November 2019 issue of E- bulletin was really useful. I, personally attempted 15 to 20 marks questions for December 2019 exam, from July to November 2019 editions of E- bulletin.(6 months prior to the exams, I followed)
For examples, some I am mentioning below:
In Paper-15, (SCM)..--time cost, project creasing-network diagram-(from Nov 2019 issue) and - marginal costing problem, of full marks, (from July 2019 issue) of E- bulletin.
In Paper 13.(CLC) questions covering from-corporate law--Companies Act short question, debentures , equity, etc.
In **Paper 14**,(SFM)--investment decision making and currency problem.., direct and indirect quotation ,(September 2019 issue of E- bulletin).
In Paper 19, (CAMA)- hospital audit, common question ,(from July 2019 issue of E- bulletin) and cost auditor's responsibility, professions ethics, auditor documents etc.
In Paper 17, problems on Amalgamation, hopefully helped to score.
In Paper 18,(ITP)- time of supply question in GST section (from-July 2019 issue of E- bulletin).

Please accept my humble acceptance, I am really thankful to all of them who work for our better future of our institute and also thanks to you mam....

HARE KRISHNA.

I attend CMA Final Exam, Dec 2019,
I really thankful to you and our CMA Institute. For kind support and help to provide additional material for exam preparation, Like - Supplementary, Work Book, MTP, and Accounts addition material for new patters and special - Monthly Final E-Bulletin. Its really help full so much for final revision. In this term November 2019 E-Bulletin, really use full. I personnel getting 15 to 20 marks common question for December 2019 exam form.

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.

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:

"You must be the Change you wish to see in the World",

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**

- Don't give up
- Don't give in
- Don't give out
You can win!

GOOD LUCK

Be Prepared and Get Success;

Disclaimer:
Although due care and diligence have been taken in preparation and uploading this E-bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-bulletin.

Few Snapshots

CMA Balwinder Singh, President along with CMA Ashwin G Dalwadi, Council Member of the Institute during Pre-Placement Orientation Training Programme held on 14th March 2020 at Ahmedabad.

Glimpses of the 41st Cost Conference on the theme "Sustainable Development through Inclusive Growth - Rising from the East" organised by the EIRC of the Institute on 28th & 29th February 2020 at Kolkata

Glimpses of the 41st Cost Conference on the theme "Sustainable Development through Inclusive Growth - Rising from the East" organised by the EIRC of the Institute on 28th & 29th February 2020 at Kolkata

Glimpses of the Golden Jubilee Conference 2020 of Kalyan Ambernath Chapter of the Institute organised on the theme 'Infrastructure - A Propeller' at Kalyan on 22nd February 2020.

Glimpses of the Golden Jubilee Conference 2020 of Kalyan Ambernath Chapter of the Institute organised on the theme 'Infrastructure - A Propeller' at Kalyan on 22nd February 2020.

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