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Syllabus 2022

# CMA Student E - Bulletin


# FINAL

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Behind every successful business decision, there is always a CMA

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# Message from the CHAIRMAN

Warm greetings!

In the words of Dr. A.P.J. Abdul Kalam, "Climbing to the top demands strength, whether it is to the top of Mount Everest or to the top of your career."

As stewards of the future, it is our responsibility to nurture not only the young minds of our nation but also contribute to the global landscape, much like tending to the greenery and the environment for the prospective well-being of human civilizations. Our commitment is still evolving and we aspire to cultivate individuals equipped not only with knowledge but also with compassion and humanity, qualities that are increasingly rare in today's world.

We are dedicated to fostering an environment where our students actively contribute to the development of a vibrant and positive ecosystem coupled with the attainment of essential knowledge. The Directorate of Studies takes pleasure in extending comprehensive support and guidance to our students. Live webinars are regularly organized for your benefit, and recorded sessions are archived in our e-library. Model Question Papers (MQPs) and monthly E-bulletins containing valuable insights are consistently updated on our website. Esteemed academicians and industry experts continually contribute to enriching the learning experience of our students.

As the Chairman of the Training & Educational Facilities Committee, I express sincere gratitude to all those who contribute to this noble cause.

Always bear in mind, "Education is the movement from darkness to light."

Wishing everyone a joyous and prosperous New Year ahead!

**Chairman, Training & Educational Facilities Committee**
**The Institute of Cost Accountants of India**

# KNOWLEDGE Update

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

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# CORPORATE and Economic Laws (CEL)

Shri Subrata Kr. Roy
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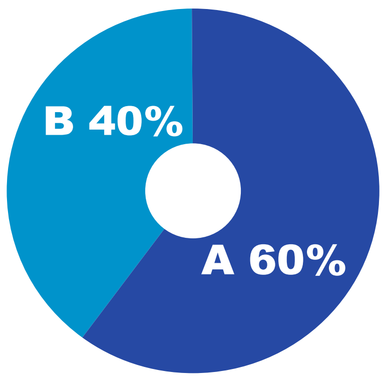
## Your Preparation Quick Takes




**Syllabus Structure**

**Section A:** Corporate Laws **60%**

**Section B:** Economic Laws and Regulations **40%**

# Company Capital

**Few important terminologies under Foreign Exchange Management Act (FEMA)**

**Authorized Bank**

'Authorized Bank' means a bank including a co-operative bank (other than an authorized dealer) authorized by the Reserve Bank to maintain an account of a person resident outside India.

**Authorized Dealer**

'Authorized Dealer' means a person authorized as an authorized dealer under sub-section (1) of section 10 of FEMA. (c)

**Authorized person**

Section 2(c) 'Authorized person' means an authorized dealer, money changer, off-shore banking unit or any other person for the time being authorized under sub-section (1) of section 10 to deal in foreign exchange or foreign securities.

**Capital**

'Capital' means equity shares, fully, compulsorily & mandatorily convertible preference shares, fully, compulsorily & mandatorily convertible debentures and warrants. Preference shares and convertible debentures shall be required to be fully paid, and should be mandatorily and fully convertible. Further, 'warrant' includes Share Warrant issued by an Indian Company in accordance to provisions of the Companies Act, as applicable.

**Capital account transaction**

Section 2(e) 'capital account transaction' means a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India, and includes transactions referred to in sub-section (3) of section 6.

**Current account transaction**

Section 2(j) 'current account transaction' means a transaction other than a capital account transaction and includes: (1) payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business. (2) payments due as interest on loans and as net income from investments. (3) remittances for living expenses of parents, spouse and children residing abroad, and (4) expenses in connection with foreign travel, education and medical care of parents, spouse and children.

**Foreign currency**

Section 2(m) 'foreign currency' means any currency other than Indian currency.

**Foreign Currency Convertible Bond (FCCB)**

'Foreign Currency Convertible Bond' (FCCB) means a bond issued by an Indian company expressed in foreign currency, the principal and interest of which is payable in foreign currency. FCCBs are issued in accordance with the Foreign Currency Convertible Bonds are issued in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole, or in part.

**Foreign exchange**

Section 2(n) 'foreign exchange' means foreign currency and includes,- (1) deposits, credits and balances payable in any foreign currency. (2) drafts, travelers cheques, letters of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency. (3) drafts, travelers cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency. )

**FIPB**

means the Foreign Investment Promotion Board constituted by the Government of India which stand abolished from May, 2017.

**Foreign Institutional Investor (FII)**

'Foreign Institutional Investor'(FII) means an entity established or incorporated outside India which proposes to make investment in India and which is registered as a FII in accordance with the Securities and Exchange Board of India (SEBI) (Foreign Institutional Investor) Regulations 1995.

**Foreign Portfolio Investor(FPI)**

'Foreign Portfolio Investor'(FPI) means a person registered in accordance with the provisions of Securities and Exchange Board of India (SEBI) (Foreign Portfolio Investors) Regulations, 2014, as amended from time to time.

**Foreign Venture Capital Investor (FVCI)**

'Foreign Venture Capital Investor' (FVCI) means an investor incorporated and established outside India, which is registered under the Securities and Exchange Board of India (Foreign Venture Capital Investor) Regulations, 2000 [SEBI (FVCI) Regulations] and proposes to make investment in accordance with these Regulations.

**Foreign security**

Section 2(o) 'foreign security' means any security, in the form of shares, stocks, bonds, debentures or any other instrument denominated or expressed in foreign currency and includes securities expressed in foreign currency, but where redemption or any form of return such as interest or dividends is payable in Indian currency.

**Automatic route of FDI**

Areas of investment in Indian entities by foreign investors which do require nay approval, other than filing with RBI

**Government route of FDI**

'Government route' means that investment in the capital of resident entities by non-resident entities can be made only with the prior approval of Government, Department of Promotion of Industry and International trade, under Ministry of Commerce and Industry.

**Indian currency**

Section 2(q) 'Indian currency' means currency which is expressed or drawn in Indian rupees but does not include special bank notes and special one rupee notes.

Investment on repatriable basis 'Investment on repatriable basis' means investment, the sale proceeds of which, net of taxes, are eligible to be repatriated out of India and the expression 'investment on non-repatriable basis' shall be construed accordingly.

**Non-resident entity**

'Non-resident entity' means a 'person resident outside India' as defined under FEMA.

(w) Non-Resident Indian (NRI) 'Non-Resident Indian' (NRI) means an individual resident outside India who is a citizen of India or is an 'Overseas Citizen of India' cardholder.

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# STRATEGIC
## Financial Management (SFM)

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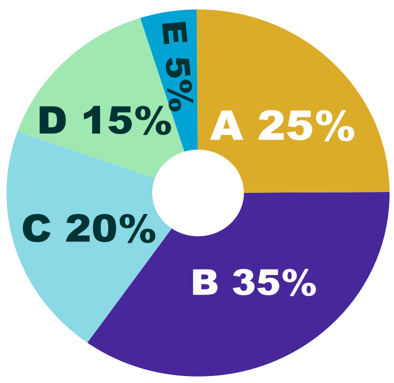
# Your Preparation Quick Takes




## Syllabus Structure

**Section A:** Investment Decisions **25%**
**Section B:** Security Analysis and Portfolio Management **35%**
**Section C:** Financial Risk Management **20%**
**Section D:** International Financial Management **15%**
**Section E:** Digital Finance **5%**

## Strategic Financial Management

- **Capital Asset Pricing Model (Continued from Previous Issue)**
- **Portfolio Return and CAPM:**

Though originally developed for security return, CAPM is equally applicable for calculating the expected return of a portfolio. The formula then is revised as follows:

$E(R_P) = R_F + \beta_P (R_M - R_F)$

When $\beta_P = \sum W_i \beta_i$ and $\beta_i$ = beta of individual security under the portfolio and $W_i$ = Weights.

Consider the following example.

**Question:**

A portfolio comprises of three securities A, B and C with beta values 0.9, 1.2 and 1.5. The weights of the securities are 0.3, 0.5 and 0.2. The market rate of return is 12% and risk -free rate is 8%. Calculate expected return of the portfolio.

**Solution:**

Here, $\beta_P = \sum W_i \beta_i$ = (0.3*0.9+0.5*1.2+0.2*1.5) = 1.17

So, $E(R_P) = R_F + \beta_P (R_M - R_F)$

= 8 + 1.17 (12 – 8) = 12.68%

- **Limitations of CAPM:**

The CAPM has serious limitations in real world, as most of the assumptions, are unrealistic. Many investors do not diversify in a planned manner. Besides, Beta coefficient is unstable, varying from period to period depending upon the method of compilation. They may not be reflective of the true risk involved. Due to the unstable nature of Beta, it may not reflect the future volatility of returns, although it is based on the Past history. Historical evidence of the tests of Betas showed that they are unstable and that they are not good estimates of future risk. But the Batas of a portfolio may be stable.

Empirical evidence showed that there it is positive relationship between systematic risk and realised returns. Besides the relation between risk and return is linear. Although CAPM focuses attention on market related risk (systematic risk), total Risk has been found to be more relevant and both types of risk appear to be positively related to the returns. Another limitation is that investors do not seem to follow the postulation of CAPM although this does not invalidate the theory as such. The analysis of SML is also not applicable to the bond analysis, although bonds are a part of a portfolio of investors.

- **Applications of CAPM**

The concept of CAPM can be used for a number of purposes as follows:

**(a) Portfolio Selection:** One of the most important purposes for which CAPM can be used is portfolio selection. The beta coefficient as part of CAPM is a key measure that indicates the level of risk of a given share or even of the portfolio. Hence, investors can use this metric to evaluate which shares to choose as part of an investment portfolio depending on their level of risk-averseness. Investors who are highly risk-averse can look to avoid shares with high beta coefficients and vice versa.

**(b) Identifying Mispriced Securities:** Another key purpose of CAPM is to detect mispriced shares. Shares can be rated in terms of their prices with CAPM by simply entering parameters which determine the share price such as beta, return on market portfolio and level of risk-free return etc. to be able to determine a value for the share. Once this value is determined, based on what the market price of the asset is currently, investors can speculate and consequently either look to buy shares if the stock is currently undervalued according to CAPM and sell short if a share is said to be overpriced according to CAPM.

**(c) Evaluate Effectiveness of a Portfolio:** CAPM also has a key use in helping to evaluate effectiveness of a portfolio. Having kept a portfolio for some time, CAPM can be used in hindsight to calculate the beta coefficient for the portfolio. Based on this, the investment decisions of portfolio managers at asset management and wealth management firms can be evaluated to see if the shares they selected for the firm or client portfolio actually managed the risk appetite which was desired and requested by the firm/client.

(d) **Performance Evaluation:** Calculating required rate of return on firm projects is also possible as a result of CAPM. Due to the CAPM model the equation can be rearranged following entering of all other parameters such that the required rate of return of the firm on a particular investment in an asset is provided. As such, the firm can consequently review whether an investment has been successful in future by assessing whether the actual return on the share met, exceeded or went below this required rate of return.

- **A Few Illustrations on CAPM**

**Problem**

The market portfolio has a historically based expected return of 0.095 and a standard deviation of 0.035 during a period when risk-free assets yielded 0.025. The 0.06 risk premium is thought to be constant through time. Riskless investments may now be purchased to yield 0.08.

A security has a standard deviation of 0.07 and a 0.75 correlation with the market portfolio. The market portfolio is now expected to have a standard deviation of 0.035.

Find out the following:

(i) Market's return-risk trade-off,

(ii) Security beta,

(iii) Equilibrium required expected return of the security.

**Solution**

(i) Calculation of Market's Return-Risk Trade-off

$$\frac{R_m - R_f}{\sigma} = \frac{0.095 - 0.025}{0.035} = 2$$

(ii) Calculation of Security Beta

$$\beta_i = \frac{\sigma_i}{\sigma_m} \times r_m = \frac{0.07}{0.035} \times 0.75 = 1.5$$



Behind every successful business decision, there is always a CMA

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# DIRECT TAX LAWS

## and International Taxation (DIT)

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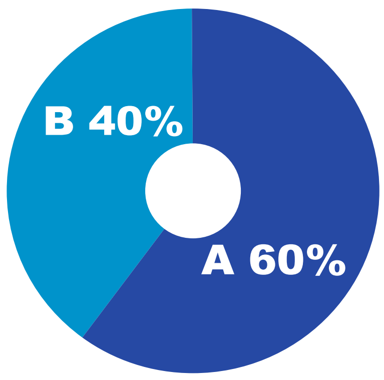
# Your Preparation Quick Takes




**Syllabus Structure**

**Section A:** Direct Tax Laws **60%**

**Section B:** International Taxation **40%**

# Tax Planning, Tax Evasion and Tax Avoidance

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

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

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

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

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

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

**Objectives of Tax Planning**

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

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

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

b. ***Minimisation of litigation***

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

c. ***Productive investment***

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

**d. *Healthy growth of economy***

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

**e. *Economic stability***

Tax planning results in economic stability by way of:

**(i)** productive investments by the tax payers; and

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

**Essentials of Tax Planning**

Following are the essentials of tax planning:

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

**Types of Tax Planning**

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

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

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

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

**Ethical way of reducing tax**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Exercise**

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

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

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

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

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

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

Vol: 8, No.: 12.
December 2023, Issue

GROUP: iii, PAPER: 16

# STRATEGIC Cost Management (SCM)

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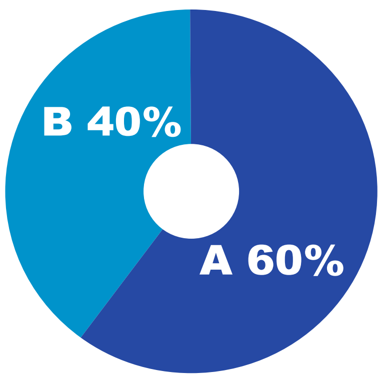
## Your Preparation Quick Takes




**Syllabus Structure**

**Section A:** Strategic Cost Management for Decision Making **60%**

**Section B:** Quantitative Techniques in Decision Making **40%**

Vol: 8, No.: 12.
December 2023, Issue

# Productivity Panorama of IndiGo

**01.00: Introduction**

Enterprise Performance is the combined outcome of several quantitative, qualitative and financials factors. However, money being the conventional medium of expression, the impact of every element of performance needs to be converted into a financial measure for better understanding and appreciation. That is why financial performance measures always tend to hold sway over others.

At the same time, the perception of performance differs from stakeholder to stakeholder. To quote a few - Entrepreneur aims for profit maximization, Shareholders seek maximum returns in terms dividend flows as also capital appreciation, Lenders want higher interest without impairing safety and security, Employees look for better remuneration, Exchequer is on an incessant chase for more and more tax collections, Economy expects over all prosperity and so on & on.

Managers keep striving to achieve an optimum performance that tends to satisfy the wish baskets of each section of the stake holders. The realizations of these perceptions to the satisfaction of stakeholders are reasoned out by using different performance measures that represent the multiple interests of all these cross sections.

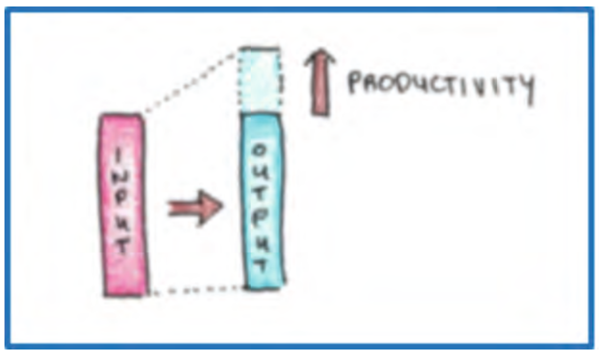
Therefore, measurement of the performance of an enterprise has to be continually perpetual. Noteworthy are the aspects that measurement makes the matters meaningful; measurement enables comparison and evaluation; measurement leads to bench marking; and also that measurement facilitates better interpretation of the data.

**02.00: Productivity**

**02.01: Concept**

Given the above context, Productivity is of special significance to each, and every stakeholder connected with an enterprise. Productivity is perceived as a measure of economic performance that compares the amount of goods and services produced (output) with the amount of inputs used to produce the said goods and services. Productivity relates the quantum of outputs to the inputs, which could be for a product or service. Expressed as a formula:

Productivity = (Output  Input)




In monetary terms output is reflected by the sale value of the output (i.e. value of production) whereas the cost of resources consumed (i.e. the cost aggregate) represents the inputs. The productivity, thus computed, indicates the value of output achieved for every rupee spent on the input resources. A higher ratio of the productivity indicates better utilization of the input resources, and a lower ratio indicates underutilization. Implied is the fact that excess of output over the input reflects value addition; and any shortfall in the output (in comparison to the input) reveals value erosion. Productivity, thus, reflects the proficiency in utilising the resources on hand.

Productivity of IndiGo may be perceived and propositioned by means of five key indicators computed from its financials. These parameters are listed as:

(i) Employee Productivity
(ii) Fixed Asset Productivity
(iii) Working Capital Productivity
(iv) Load Factor
(v) Fuel Margin per Passenger Seat Km

**02.02: Employee Productivity**

Apart from traditional quantitative and qualitative elements, monitoring the financial performance of every employee is also crucial in achieving the targeted growth momentum. One simple way to measure the performance of employees could be by computing the value of production per every rupee spent as employee cost. The resultant multiple reveals the employee productivity; with higher the multiple higher the productivity and vice versa. The general formulation reads as:

Employee Productivity = (Value of Production  Employee Cost)

The measure and the monitoring of Employee Productivity assumes greater importance in many a Service Industry such as Banks, Information Technology, etc. wherein Skilled Human Resources constitute the core strength.

**02.03: Fixed Asset Productivity**

The most important long-run effect on productivity is investment of funds in fixed assets. Analysis of productivity of the capital funds invested is, thus, very vital for analysing the efficiency of an enterprise. Fixed Asset Productivity can be computed by taking out the value of production generated per rupee of capital employed in the fixed assets of the enterprise. It is derived as a ratio by


Behind every successful business decision, there is always a CMA

dividing the value of production with the fixed assets deployed. The formulation reads as:

Fixed Asset Productivity = (Value of Production  Net Fixed Assets)(

A higher ratio implies higher production per every rupee of investment and also better utilization of the fixed assets whereas a lower ratio speaks the other way.

**02.04: Working Capital Productivity**

Working Capital Funds constitute the life line of the operations. Working Capital Productivity reveals the level of efficiency in the utilization of net working capital. Working Capital Productivity is computed as a ratio by dividing the sales with the net current assets. For the purpose of our analysis, we substitute sales by value of production. Expressed as a formula:

Working Capital Productivity = (Value of Production  Net Current Assets)

A higher ratio signifies lower operating cycle, faster circulation of the funds and better utilization of the current assets whereas a lower ratio signifies the converse.

**02.05: Load Factor**

In the case of aviation, airline seats are the capacity created with the objective of providing the service of commuting the passengers from the origin to the destination. Load Factor, for this purpose, refers to the occupancy rate of the available seats in terms of seat kilo metres. In other words, Load Factor gives out utilisation of passenger seating capacity. The simple formulation may be:

Load Factor (%) = {(Passenger Km ÷ Available Seat km) x 100}

Higher the numeral better the seat utilisation and vice versa.

**02.06: Fuel Margin per Passenger Seat Km**

Fuel Margin refers to the primary throughput generated during the process of air commutation. Fuel, being the raw resource for aviation, margin generated per seat km assumes the core significance. The derivation may read as:

Fuel Margin per Passenger Seat Km = (Fuel Margin ÷ Passenger Km)

Evidently, higher the margin better the performance and vice versa.

**03.00: Productivity of IndiGo**

**03.01: Formulae**

Considering the discussions in the preceding paragraphs, the formulae adopted to carry out the productivity computations with respect to IndiGo are as follows:

(i) Employee Productivity = (Operating Income ÷ Employee Cost)
(ii) Fixed Asset Productivity = (Operating Income ÷ Net Fixed Assets)
(i) Working Capital Productivity = (Operating Income ÷ Net Current Assets)
(ii) Load Factor (%) = {(Passenger Km ÷ Available Seat km) x 100}
(iii)Fuel Margin per Passenger Seat Km = (Fuel Margin ÷ Passenger Km)

**03.02: Derivations**

The resultant derivations, for the thirteen year period from 2010-11 to 2022-23 are furnished as in table-1.

**Table-1: Productivity Trend of IndiGo**

| Year | Employee Productivity | Fixed Asset Productivity | Working Capital Productivity | Load Factor (%) | Fuel Margin Per PKM (Rs.) |
|---|---|---|---|---|---|
| 2010-11 | 12.95 | 4.58 | 7.42 | 73.00 | Not Available |
| 2011-12 | 10.57 | 6.22 | 5.73 | 70.79 | 2.07 |
| 2012-13 | 13.11 | 5.16 | 7.76 | 67.61 | 2.86 |
| 2013-14 | 11.89 | 2.79 | 205.10 | 65.30 | 2.83 |
| 2014-15 | 11.64 | 2.84 | 63.20 | 79.76 | 2.87 |
| 2015-16 | 8.95 | 3.39 | 9.92 | 83.99 | 3.13 |
| 2016-17 | 9.01 | 4.83 | 3.96 | 84.80 | 2.62 |
| 2017-18 | 9.33 | 9.33 | 2.69 | 87.43 | 2.73 |

| | | | | | |
|---|---|---|---|---|---|
| 2018-19 | 9.04 | 4.99 | 2.81 | 86.16 | 2.35 |
| 2019-20 | 8.09 | 2.10 | 5.93 | 85.76 | 2.80 |
| 2020-21 | 4.82 | 0.77 | 8.51 | 69.39 | 3.41 |
| 2021-22 | 8.19 | 1.21 | -11.53 | -11.53 | 3.11 |
| 2022-23 | 12.52 | 1.96 | 23.99 | 82.10 | 3.25 |
| Average | 10.01 | 3.52 | 25.81 | 77.67 | 2.84 |
| SD | 2.39 | 1.72 | 56.64 | 7.94 | 0.38 |
| CV | 23.88 | 48.78 | 219.48 | 10.22 | 13.23 |
| Bench Mark (Average from 2010-11 to 2019-20) | 10.46 | 4.19 | 31.45 | 78.46 | 2.69 |

**03.03: Observations**

Employee productivity for the thirteen-year period averages to 10.01; the highest is at 13.11 in 2012-13; lowest is at 4.82 in 2020-21 (an obvious COVID impact); and the latest is 12.52 for 2022-23. The latest may be considered as a reasonable bench mark and the feasible parameter of employee productivity may be ranged to remain between 12.50 and 12.75.

The average of the fixed asset productivity for the period works out to 3.52; the highest is at 6.22 in 2011-12; lowest is at 0.77 in 2020-21 (again an obvious COVID impact); and the latest is 1.96 for 2022-23. The high CV of 48.78 reflects the untenable fluctuations. The level of asset utilisation is spilling down and certainly needs a turn around. Rationality would have it that minimum of the asset productivity should hover around 3.

Working capital productivity for the thirteen-year period averages to 25.81 with a very high CV of 219.48; the highest is at 205.10 in 2013-14; lowest is at (-)11.53 in 2021-22; both the highest and lowest appear to be abnormal and absurd. Apparently, working capital management does warrant improvement. The latest is 23.99 for 2022-23 and looks reasonable. The parameter for working capital productivity may be pegged at 25.

The average of the load factor for the thirteen-year period works out to 77.67; the highest is at 87.43 in 2017-18; lowest is 65.30 in 2013-14; and the latest is 82.10 for 2022-23. The fair CV of 10.22 reveals a fair stability. Noteworthy is the fact that the airlines has been able maintain a load factor 69.39 during the COVID prone 2020-21. Taking into account the business trend of the aviation sector, a load factor of 88% may be considered reasonable for IndiGo.

Fuel margin per passenger km for the thirteen-year period averages to Rs.2.84; the highest is at Rs.3.41 in 2020-21 (a COVID surprise); lowest is at Rs.2.07 in 2011-12; and the latest is a reasonable Rs.3.25 for 2022-23. Worth remembering is that fuel margin is impacted by regulatory measures and market pressures. However, a target of Rs.3.50 per Passenger km may be considered as feasible and attainable.

**03.04: Propositions**

The productivity propositions of IndiGo as discussed above are summed up as follows:

- Employee Productivity = 12.5 to 12.75
- Fixed Asset Productivity = 3
- Working Capital Productivity = 25
- Load Factor = 88%
- Fuel Margin per Passenger Seat Km = Rs.3.50

**04.00: Quick Take**

IndiGo reiterates the fact that low costs remain fundamental to the way they do business; It puts forward that it is a pioneer in bringing low-cost aviation to India; It adds that it has been able to build one of the lowest cost structures globally with structural cost advantages coupled with operational efficiencies. It means that IndiGo has been able to achieve Cost Transformation as also Cost Leadership.

**Resources:** Annual Reports of IndiGo for the years from 2011-12 to 2022-23

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GROUP: iv, PAPER: 17

# COST and Management Audit (CMAD)

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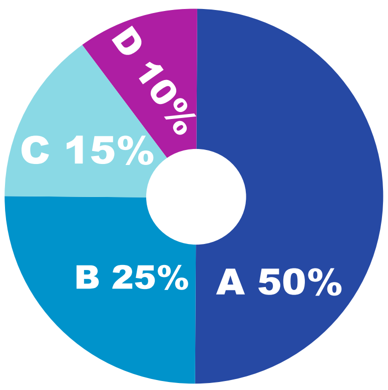
## Your Preparation Quick Takes




**Syllabus Structure**

**Section A:** Cost Audit **50%**
**Section B:** Management Audit **25%**
**Section C:** Internal Control, Internal Audit, Operational Audit and Other Related Issues **15%**
**Section D:** Forensic Audit and Anti-Money Laundering **10%**

## Cost and Management Audit

After passing CMA Intermediate, you have joined in Fertile Fertilizer Limited as Logistics Head. Within three years of appointment, you have successfully introduced multimodal transportation for the business. Draft a presentation for the Board describing the benefits derived by the Company.

- Our core command area is Gujarat with a radius of 250 Km. from Plant and the same catered by Road transport. Our distribution network spread over NEWS ( North- East-West-South) approximately 3000 Km. Our quest for on time delivery with low freight propelled us to use combination of different Modes of transportation.
- We are the benchmark in fertilizer industry for lowest distribution cost. Our competitors use maximum two modes for reaching to delivery destinations viz. Road and Rail, while we use three viz. Road , Rail and Water ways.
- As a first mover, in two areas ( None and Only) we are using Burges to carry full truck load ( 40 Mt.) from one side of the river to the other side, wherefrom Wagons are loaded for South Indian destinations. By following this route we are saving Rs.22/- per Mt.
- For at least 888 destinations , we use the process of transhipment. Due to narrow , unmetalled road condition bigger trucks can't cater small Dealer Orders ranging 20 Mt. - 30 Mt. per Delivery Order. We have mapped the Dealers in a radius 30 of Km. and material sent in Trailor Trucks , wherefrom smaller trucks carry the load and deliver at Dealer premises. This has attracted Dealers of other Brands to order our Product. In time, within cost budget, with assurance for 'on time – every time' ; our small Dealer family increased by at least 2222 across India.
- From our plant, Rake/Wagon Loaded materials unloaded at Hazira Port and Cape size Vessels of 1,25,000 Mt. capacity carries the same to Paradeep, Vizag etc. places.
- We import MOP at Kakinada Port , however Kakinada Port do not have berthing facility. Hence, floating cranes are used for unloading in Burges. After reaching at Shore, Burges unload materials using smaller sized cranes to Trailer Trucks for respective destinations. Using sea route of Kakinada for Telegana, Andhra, part of Tamil Nadu; per Mt. savings achieved worked out to Rs.33/-.
- Our Logistic Team is very active at all the Railway Sidings used by us. They ensure clearance from Sidings within 8 hours of rake arrival. Large fleet of Trucks depending on despatch plan being arranged and vehicles are loaded directly from rakes to avoid multiple handling cost and 'on time' availability of material at the market place. Each handling costs Rs.22 per Mt. Moreover, Rake transportation is cheaper by Rs.88 per Mt. when compared with Road freight.
- For export consignments, we use 60 Mt. – 100 Mt. Trucks to Okha, Hazira ,Kandla Ports, wherefrom Vessels are loaded for Gulf and African Ports like Mombasa.
- For 'Core Command Area' , we use 8 Mt.- 10 Mt. capacity Vehicles at a fixed freight of Rs.250/- per Mt. irrespective actual distance. Our competition, use Trucks and their minimum PTPK is Rs.500/-. Since most of the Dealerships are common, our detailed working indicates a savings of Rs. 77 Cr. p.a.
- Since January 2023 ( delay of 6 months due to Corona pandemic) , we have launched a Scheme named DOT ( Delivery By Own Truck) , where we are giving a Discount to Dealers taking material through their own Truck. The Discount is lower by at least 10% of our prevalent Freight/Cost incurred through multimodal movement. This will translate into a savings of Rs. 111 Crores p.a. at the volume of Previous Year at existing cost.
- For every movement of material using single , double or multiple modes adequate and appropriate documentation, Contracts and approval mechanism as per Delegation Of Authority is in place.

Draft Internal Control procedure for a Library with respect to Purchase of Books, Issue of Books and Custodianship.

<u>Purchases</u>

- Proposition from Members for the requirement of specific Books
- Managing Committee approval for 'list of books' to be procured
- Approved Budget for purchase of Library Books by Managing Committee
- Selection of Book sellers/Agency/Publisher House for purchases
- Approved discount over printed rate and pay-term by Library Committee
- Bill approval alongwith physical copy of Books delivered/received
- Checking physical condition of Books before approval/acceptance
- Payment Voucher approval and fund transfer
- Accounting for Payments made in Library Accounts
- Receipt and Payment Account' indicating value of books purchased
- Catalogue with Year of Purchase and tagging of Books with serial number

<u>Issue</u>

- Member Registration for Library facility Usage (Reading Room and Lending)

- Member Photo ID and signature attestation/authorization for drawing Books - lending
- Maximum lending period and penal action (provision for fines for daily default w.r.t return of books)
- Catalogue with identification number of Books, Name and Author
- Book Issue Slip containing (triplicate) full information identification number of Books, Name and Author - One Copy for Library Record,One for borrower, One for Issuing counter
- Authorization of Issue Slip by Librarian
- Obtaining borrower signature on two copies of issue slip
- For reading Room – 2 Copies of Issue Slip (Borrower and Office)
- Return of Book against borrower slip only
- Security or Close Circuit Camera to oversee the facility

Custodianship

- Rack Arrangements with display of Book identity
- Physical up-keep of Books in appropriate space already notified
- Book Search facility may be maintained through Computerized Database
- Capitalization and non-Capitalization of Books (Organizational Guideline)
- Periodical Physical count of Books against Issue Slips (Borrowing, Reading Room) & Catalogue
- Validation of physical condition of Books (wear & tear, missing pages etc.)
- Rack, Almirahs – treatment with chemicals for white ant, Rats etc.
- Segregation of Books – a. rare and Out of print, b. current
- Rare Books marked for Reading Room only
- Recovery from Members for Books lost

GROUP: iv, PAPER: 18

# CORPORATE Financial Reporting (CFR)

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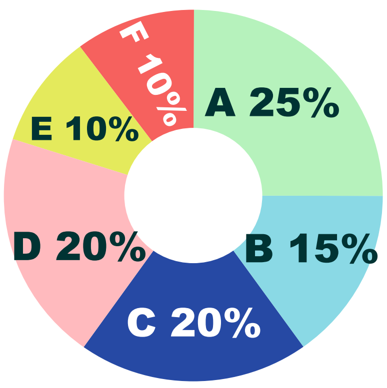
## Your Preparation Quick Takes




### Syllabus Structure

**Section A:** Indian Accounting Standards **25%**

**Section B:** Valuation of Shares, Accounting and Reporting of Financial Instruments and NBFCs **15%**

**Section C:** Accounting for Business Combination and Restructuring (in Compliance with Ind ASs) **20%**

**Section D:** Consolidated Financial Statements and Separate Financial Statements (in Compliance with Ind ASs) **20%**

**Section E:** Recent Developments in Financial Reporting **10%**

**Section F:** Government Accounting in India **10%**

## Corporate Financial Reporting

**An introduction to preparation of consolidated financial statements for Ind AS complied companies**

**Ind AS 110 Consolidated Financial Statements**

The objective of the Indian Accounting Standard (Ind AS) 110 is to establish principles for the presentation and preparation of consolidated fi nancial statements when an entity controls one or more other entities.
To meet the objective Ind AS 110:
a) requires an entity (the *parent*) that controls one or more other entities (*subsidiaries*) to present consolidated financial statements
b) defines the principle of *control*, and establishes control as the basis for consolidation;
c) sets out how to apply the principle of control to identify whether an investor control an investee and therefore must consolidate the investee;
d) sets out the accounting requirements for the preparation of consolidated fi nancial statements; and
e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

**However, a parent need not present consolidated financial statements if it meets all the following conditions:**
(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
(iii) it did not fi le, nor is it in the process of fi ling, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
(iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with Ind ASs.

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.
An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to aff ect those returns through its power over the investee.

Thus, **an investor controls an investee** if and only if the investor has all the following:
a) power over the investee;
b) exposure, or rights, to variable returns from its involvement with the investee; and
c) the ability to use its power over the investee to aff ect the amount of the investor₹s returns.
An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that signifi cantly aff ect the investee₹s returns. Power arises from rights. Sometimes, power can be assessed straightforward from the voting rights through shareholdings. In other cases, the assessment will be more complex when power results from one or more contractual arrangements.

If another entity (including government, court, administrator, receiver, liquidator or regulator) has existing rights to direct the relevant activities, the investor does not have power over the investee even if it holds more than half of the voting rights in the investee.

Consolidated financial statements are required to be prepared as per Ind AS 28 under **Equity Method** when investor company has significant influence or joint control over the investee company (associate or joint venture). Under Equity Method of consolidation, no assets or liabilities of the investee is recognised, rather investment account is recognised at cost plus share of investor in post-acquisition profi ts (both profit or loss and other comprehensive income) in the investee.

**When investor company has control over the investee company (subsidiary) consolidated financial statements are required to be prepared on the reporting date as per Ind AS 110:**

¤ by combining the book value of assets and liabilities of parent with the fair value of assets and liabilities of the subsidiary plus post-acquisition changes in their book value,
¤ by recognising non-controlling interest at acquisition date value plus post-acquisition share in total comprehensive income of the

subsidiary,
- by recognising goodwill or gains from bargain purchase at acquisition date as per Ind AS 103 and
- by recognising parent's share in post-acquisition profits of the subsidiary company in the consolidated Other Equity.
- No investment account is recognised for holding shares in the subsidiary.

**Measurement of Fair value of Net Assets, Non-controlling Interest, Goodwill/ Gain on bargain purchase, Consolidated Other Equity**

Ind AS 103 states that the acquirer obtaining control over acquiree, recognises and measures in its consolidated financial statements at the acquisition date
(i) the identifiable assets acquired, the liabilities assumed at Fair Value and
(ii) any non-controlling interest in the acquiree at Fair Value or at Proportionate Value and
(iii) the goodwill acquired in the business combination or a gain on bargain purchase.

However, for consolidation at subsequent reporting date, the post-acquisition changes in assets and liabilities of the subsidiary and corresponding change in Other equity and NCI for post-acquisition total comprehensive income of the subsidiary should also be considered but no change should be made to Goodwill/Gain on Bargain Purchase.

At the time of acquisition of shares in Subsidiary company (S) identified assets and liabilities of S are recorded in the consolidated accounts at fair value. Subsequently the non-current items (assets and liabilities) of S are carried in the consolidated balance sheet at acquisition date fair value plus subsequent change in book value. However, **for current items the revaluation profit or loss on the acquisition date (difference between fair value and book value) is reverted through post acquisition retained earnings#**, and thus the book values of parent and subsidiaries are combined for consolidation.

In subsequent CBS (Consolidated Balance Sheet), Non-Controlling Interest (NCI) is measured at value at acquisition (as per Ind AS 103) + share of NCI in post-acquisition profits (total comprehensive income). Note that NCI as per Ind AS 103 can be measured at Fair Value or at proportionate value of net assets identified. The parent's share in post-acquisition profits in subsidiary is added to the consolidated other equity.

In subsequent CBS (Consolidated Balance Sheet) Goodwill/Gain on bargain purchase is recorded at acquisition date value as per Ind AS 103; ie., Consideration + NCI + Fair value of previously held interest (if any) - Fair Value of net assets identified at acquisition.

In the books of the parent company the dividend receivable is shown as current asset and credited to Profit and Loss (if it is from post- acquisition profit) or Investment a/c (if it is from pre-acquisition profits). If pre-acquisition dividend is wrongly credited to parent's Profit and Loss, both Investment a/c and parent's Profit and Loss are reduced by the share of parent in pre-acquisition dividend. But it is important to keep in mind that this treatment is done in the separate financial statements only.

When Ind AS 103 is followed, purchase consideration at the acquisition date is added with NCI and Fair value of previously held equity interest and from the total fair value of net assets identified is subtracted for finding the goodwill to be recognized. This goodwill recognized at acquisition date is not adjusted afterwards for any declaration of dividend by the subsidiary, even if it is from pre-acquisition profi ts. It is not required also. As dividends from pre-acquisition profi ts are already included in the acquisition date fair value of net assets, it is no more required to be deducted separately from Purchase consideration again. Thus, it is clear that for calculating goodwill in the consolidation of accounts pre-acquisition dividends need not be subtracted from Investment (Purchase consideration).


Behind every successful business decision, there is always a CMA

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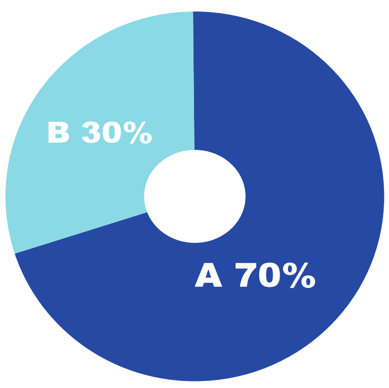
# INDIRECT TAX

## Laws and Practice (ITLP)

# Your Preparation Quick Takes




**Syllabus Structure**

**Section A:** Goods and Services Tax Act & Rules **70%**

**Section B:** Customs Act and Rules **30%**

# REMISSION OF DUTIES AND TAXES ON EXPORTED PRODUCTS (RO DTEP)

The Remission of Duties and Taxes on Exported Products (RO DTEP) scheme is an initiative by the Indian government aimed at refunding various taxes and duties incurred during the manufacturing and export of goods. It replaces the Merchandise Exports from India Scheme (MEIS) and is designed to boost India's exports by enhancing the competitiveness of domestically produced goods in the global market.

**Objectives:**

- Boost Exports:- Encourage higher exports by providing refunds for taxes/duties, making Indian products more competitive.
- Compliance:- Align with WTO regulations after the discontinuation of MEIS.
- Support Domestic Industries:- Aid domestic manufacturers by reducing their production costs and enhancing global market access.
- Discuss the primary goals, such as boosting exports, promoting domestic manufacturing, and enhancing the competitiveness of Indian products in international markets.
- Highlight:- how it aims to replace the Merchandise Exports from India Scheme (MEIS) to comply with WTO regulations.

**Benefits:**

- Increased Competitiveness:- Exporters benefit from reduced costs, making their products more attractive in international markets.
- Enhanced Cash Flow:- Refunds help improve liquidity and cash flow for exporters.
- Promoting Local Manufacturing:- Encourages domestic production and value addition to goods intended for export.

**Eligibility Criteria:**

- Both manufacturer exporters and merchant exporters (Traders) are eligible.
- There is no turnover threshold for availing benefits under the scheme.
- Re-exported products are not eligible under this scheme.
- The exported products should have India as their country of origin to be eligible for benefits under the scheme.
- Special Economic Zone Units and Export Oriented Units are also eligible.

**INELIGIBLE CATEGORIES:**

- Exports through trans-shipments, meaning thereby exports originating in third country but trans-shipped through India:
- Export products which are subject to minimum export price or export duty;\Products which are restricted for exports under Schedule-2 of Export Policy in ITC (HS);
- Deemed Exports;
- Supplies of products manufactured by DTA units to SEZ/FTWZ units;
- Products manufactured in EHTP and BTP;
- Goods which have been taken into use after manufacture (i.e. second-hand goods);

**Criteria for RO DTEP:**

- The scheme defines the methodology to calculate refund rates for different goods.
- Rates are determined based on various factors such as sectoral benchmarks, input-output norms, and embedded taxes.

**Recent Updates:**

- Continual refinements and updates are being made to the RO DTEP scheme to address industry concerns and enhance its effectiveness.
- Government periodically revises rates and expands the scope of goods covered under the scheme to accommodate evolving trade dynamics.
- Explain the benefits for exporters, including increased liquidity, improved cash flow, and reduced transaction costs.
- Discuss how it helps in reducing the overall cost of exported goods, making them more competitive in the global market.

RO DTEP is a pivotal scheme contributing to India's efforts to promote exports, reduce trade barriers, and make its goods more competitive in the global market.

GROUP: iv, PAPER: 20 A

# STRATEGIC

## Performance Management and Business Valuation (SPMBV)

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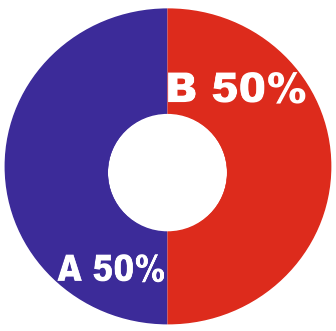
# Your Preparation Quick Takes




### Syllabus Structure

**Section A:** Strategic Performance Management **50%**

**Section B:** Business Valuation 50%

## Module 4 Ent erprise Risk Ma nagem ent

**SLOB Mapped against the Module:**
To develop in depth understanding about the risk framework and the enterprise risk management framework.

Learning Outcome : Apply COSO Framework in risk management.

**Focus : COSO Risk Management:**
The COSO Framework, developed by the Committee of Sponsoring Organizations of the Treadway Commission, represents a preeminent model for enterprise risk management (ERM). Conceived through a collaborative effort of five private sector entities, COSO aims to furnish guidance and thought leadership on critical aspects such as internal control, fraud deterrence, and ERM.

At its core, the COSO ERM framework offers a holistic and integrated approach to fortifying an organization's capacity to attain its objectives while effectively navigating risks. This structured framework comprises key components, each contributing to a cohesive approach to risk management:

1. Governance and Culture: Serving as the bedrock, this component underscores the significance of the organization's governance structure and the cultural milieu it fosters in relation to risk management.
2. Strategy and Objective-Setting: This facet directs attention towards the harmonization of an organization's risk appetite with its overarching strategy, as well as the formulation of objectives that are congruent with its mission.
3. Performance: Encompassing the identification of risk events and the evaluation of their potential impact on objective attainment, this component integrates risk response and control activities.4. Review and Revision: This component involves the continual monitoring and adaptation of the risk management process, ensuring its sustained effectiveness and alignment with organizational objectives.
5. Information, Communication, and Reporting: Paramount to a successful risk management program, this component entails effective internal and external communication processes and reporting mechanisms.

The COSO ERM framework, esteemed on a global scale, serves as a foundational model frequently utilized for the development and evaluation of risk management initiatives within diverse organizational contexts. By offering a systematic approach to risk identification, assessment, response, and monitoring, the framework permits organizations to tailor their risk management protocols to specific needs and industry exigencies.

Case Study: ABC Corporation - Enhancing Enterprise Risk Management

Background:

ABC Corporation, a multinational manufacturing company, recognized the need to enhance its Enterprise Risk Management (ERM) practices to navigate the complexities of its industry and ensure sustainable growth. The company operated in diverse markets and faced challenges related to supply chain disruptions, regulatory changes, and technological advancements.

Key Components of ERM Implementation:

1. Risk Governance and Culture:

- ABC Corporation appointed a Chief Risk Officer (CRO) to oversee the ERM function.

- The board actively promoted a risk-aware culture, emphasizing the importance of risk management in achieving strategic objectives.

2. Risk Identification:

- Conducted comprehensive risk workshops involving cross-functional teams to identify and catalog potential risks.

- Utilized external experts and industry reports to identify emerging risks in the global market.

3. Risk Assessment:

- Developed a risk assessment matrix to evaluate the potential impact and likelihood of identified risks.

- Prioritized risks based on their significance to key business objectives.

4. Risk Appetite and Tolerance:

- Defined and communicated the organization's risk appetite, aligning it with strategic goals.

- Established thresholds for acceptable levels of risk exposure in critical areas such as financial performance and product quality.

5. Risk Response and Mitigation:

- Implemented a robust risk response plan, including the development of contingency plans for supply chain disruptions.

- Invested in advanced technology to enhance cybersecurity and mitigate the risks associated with technological advancements.

6. Information and Communication:

- Implemented a centralized risk information system to ensure real-time reporting and analysis of risk data.

- Conducted regular training sessions to improve risk awareness among employees at all levels.

7. Monitoring and Reporting:

- Established a Key Risk Indicators (KRIs) dashboard to monitor changes in risk levels.

- Implemented regular risk reporting to the board and senior management, providing insights into the status of risk management activities.

8. Integration with Strategic Planning:

- Integrated risk management into the strategic planning process, considering risks and opportunities associated with new market entries and product launches.

- Conducted scenario planning exercises to assess the impact of various strategic decisions on the risk profile.

Results:

1. Improved Resilience:

- ABC Corporation demonstrated increased resilience in the face of supply chain disruptions, minimizing the impact on production and customer satisfaction.

2. Enhanced Decision-Making:

- The integration of risk considerations into strategic planning improved decision-making, resulting in the successful launch of new products in emerging markets.

3. Regulatory Compliance:

- ABC Corporation stayed ahead of regulatory changes, ensuring compliance and avoiding potential legal issues.

4. Cost Savings:

- Proactive risk management led to cost savings by preventing potential financial losses and optimizing resource allocation.

5. Stakeholder Confidence:

- Regular communication and reporting on risk management activities instilled confidence among stakeholders, including investors, customers, and employees.

Lessons Learned and Continuous Improvement:

ABC Corporation recognized that ERM is an ongoing process. Regular reviews and updates to the risk management framework were essential to adapting to changing business environments. Lessons learned from incidents were used to refine risk management strategies continually.

This case study illustrates how ABC Corporation successfully implemented key components of Enterprise Risk Management, leading to increased organizational resilience, improved decision- making, and enhanced stakeholder confidence.

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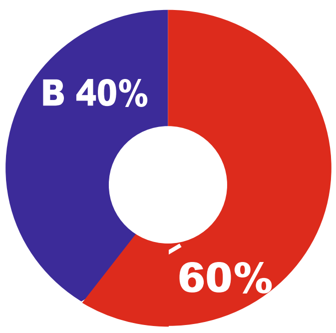
GROUP: iv, PAPER: 20 B

# RISK MANAGEMENT

## in Banking and Insurance (RMBI)

# Your Preparation Quick Takes




**Syllabus Structure**

**Section A:** Risk Management in Banking **60%**
**Section B:** Risk Management in Insurance **40%**

# A Brief on Module 5: Operational Risk-ORM

Growing number of high-profile operational loss events worldwide have led Banks and Supervisors to increasingly view **Operational Risk Management** (ORM) as an integral part of the Risk Management Activity. Management of specific Operational Risks is not a new practice; it has always been important for Banks to try to prevent fraud, maintain the integrity of internal controls, reduce errors in transaction processing, and so on. However, what is relatively New is the view of Operational Risk Management as a comprehensive practice comparable to the Management of Credit and Market Risk. 'Management' of Operational Risk is taken to mean the 'Identification, Assessment, and / or Measurement, Monitoring and Control / Mitigation' of ORM Risk.

The exact approach for Operational Risk Management chosen by Banks will depend on a range of factors. Despite these differences, clear strategies and oversight by the Board of Directors and Senior Management, a strong Operational Risk Management Culture, Effective Internal Control and Reporting, Contingency Planning are Crucial Elements for an Effective Operational Risk Management framework. Initiatives required to be taken by Banks in this regard will include the following:

- The Board of Directors is Primarily responsible for ensuring Effective Management of the Operational Risks in Banks. The Bank's Board of Directors has the ultimate responsibility for ensuring that the Senior Management establishes and maintains an Adequate and Effective System of Internal Controls.

- Operational Risk Management should be Identified and Introduced as an Independent Risk Management Function across the entire Bank / Banking Group.

- The Senior Management should have Clear Responsibilities for Implementing Operational Risk Management as Approved by the Board of Directors.

- The Board of Directors and Senior Management are responsible for Creating an Awareness of Operational Risks and establishing a Culture within the Bank that emphasises and demonstrates to all the Levels of Personnel the Importance of Operational Risk.

- The Direction for Effective Operational Risk Management should be embedded in the Policies and Procedures that Clearly describe the Key Elements for Identifying, Assessing, Monitoring and Controlling / Mitigating Operational Risk.

- The Internal Audit Function assists the Senior Management and the Board by Independently Reviewing Application and Effectiveness of Operational Risk Management Procedures and Practices approved by the Board / Senior Management.

- The Capital Adequacy Framework has put Forward Various Options for calculating Operational Risk Capital charge in a "Continuum" of increasing Sophistication and Risk Sensitivity and Increasing Complexity. Despite the fact that Banks may adopt any one of these options for Computing Capital Charge, it is intended that they will Benchmark their Operational Risk Management Systems and Aim to move towards more Sophisticated Approaches.

To Conclude, Operational Risk in the Banking System is not a New Concept. A distinct Risk Category that can shape the Risk Profiles of Banks / Financial Institutions. This Elevation is mainly due to the Basel Committee on Banking Supervision (BCBS).

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GROUP: iv, PAPER: 20 C

# ENTREPRENEURSHIP

## and Startup (ENTS)

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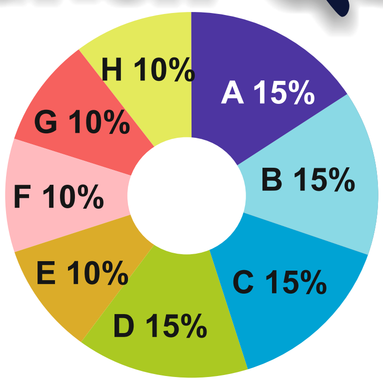
# Your Preparation Quick Takes




## Syllabus Structure

**Section A:** Entrepreneurial Skill Sets 15%
**Section B:** The Entrepreneurial Eco-system 15%
**Section C:** Idea to Action 15%
**Section D:** Value Addition 15%
**Section E:** Scale up 10%
**Section F:** Risk Management Strategies 10%
**Section G:** Leadership 10%
**Section H:** Types of New Age Business 10%

## Entrepreneurial Skill Set

**Psychological Traits of an Entrepreneur**

1. **Dream Big in Small Input** This is the most important quality for becoming a successful entrepreneur. People should always dream and use their energy to turn them into reality. If you dream to be a successful entrepreneur, you can become a successful entrepreneur.
2. **Delegate the Work to Others** It's not important to do everything on your own and having someone with you to share your work-load and dreams is good. Delegation of tasks gives mental relaxation which in turn doubles your output.
3. **Set High Standard Goals and Deliver** Always set goals higher than your expectations and put all your energy into it to achieve it. If you get an order to complete a task under a short timeline, don't panic, but accept the order.
4. **Take a Practical Approach** Never underestimate your business. Be practical because you have bills to pay and mouths to feed. So, always be ready with a plan B.
5. **Map it out** Before making any big investment, map out the project's blueprint and cover every possible point within the strategy. All aspects of the startup plan should be discussed prior and the pro and cons of the venture ought to be laid down clearly.
6. **Treat and Raise your Business like a Child** When your child is growing, you love and nourish them to the fullest. But once they enter into adulthood, you set them free to explore the world. Treat your business in the same way.
7. **Fear Equals Downfall** Never let your fears impact your life decisions. Rule your fears and bend them according to your will. Empower and overcome fear to become an entrepreneur.
8. **Fall Every Day** Don't be afraid to fall. If you do, wake up with renewed energy the next day and be ready to fall again. In the end, failures will succumb to you.
9. **Stay Creative** An entrepreneur is no less than an artist and always stays inspired. You should nurture and improve creativity through different methods like drawing, music, reading, walking, etc.
10. **Get Investors** The number one rule of the business is never using your own money. Always find investors who are willing to work with you and churn profits out of their investment, for you as well as them.
11. **Never Lose Composure** There comes a time when you can't help but lose your temper completely. Though it's normal, you need to minimize such occurrences. Keep calm! Business and anger are like nitrogen and hydrogen, never mix them.

**Risks involved at the starting of the business for an Entrepreneur**

An entrepreneur is a risk taker. Hence, he will face the following risks at the starting of his/her business. These are:

**(i)** **Founder risk:** Founder risk considers who the founders of the company are, if they get along, and how they will work for the company.

**(ii)** **Product risk:** Product risk takes into account the engineers creating new product for the business and how they will recruit other product engineers.

(iii) **Market risk:** Market risk looks at the problem you're solving with your product and how consumers will react.

(iv) **Competition risk:** Competition risk looks at how you differ from other similar organizations and companies.

**(v)** **Sales execution risk:** Sales execution risk helps you look at how to sell your product to consumers by presenting them a solution to their problem.

(Source:https://www.wgu.edu/blog/starting-a-business-how-entrepreneurs-handle-risk1810.html#close accessed on 05.08.2022)

**GAP Model of Service Quality**

The GAP model of service quality examines five of the most common business areas where expectations may not align with deliverables. The entrepreneurs use to analyze customer satisfaction and identify areas for improvement.

(i) **The gap between management perception and customer expectation:** This gap measures the difference between what customers expect and what management thinks they expect. This gap can occur when management doesn't have enough information about their customers.

(ii) **The gap between management perception and service quality specification:** The gap examines the difference between what management perceives quality service is and how accurately management specifies the level of quality they expect from their team. In this situation, management may understand what their customers expect, but they have not established the necessary performance standards to ensure their team meets these expectations.

(iii) **The gap between service quality specification and service delivery**: This gap assesses the difference between what level of service managers tell staff members to provide and what type of service the customer actually receives. Customers may receive lower-quality service than management anticipates if team members are unable to meet expectations.

(iv) **The gap between service delivery and external communication**: It analyzes the difference between the service a company tells customers they provide and the service the customers actually receive. It measures whether the company advertises and communicates information about its services accurately instead of exaggerating its claims. Advertisements and company statements have a significant impact on customer expectations, so it's important for managers to ensure the claims they make are honest.

(v) **The gap between expected service and experienced service:** This addresses the difference between the level of service customers expect to receive and the level of service they perceive. While advertisements and direct communication from a company certainly impact customer expectations, interactions they have with other customers and their previous experiences with a company may also influence the type of experience they expect to have.

**Resource Management Techniques:**

Following resource management techniques to forecast, plan, allocate, level and optimize resources during the execution of a project.

**(I) Resource Forecasting:** Project managers must do their best at estimating what resources are needed for a project and how those resource requirements fit with the organization's current plans. To do this, he/she must define the project scope to identify all project tasks and their required resources.

**(ii) Resource Allocation**: Resource allocation consists in evaluating available resources, capacity, resource schedule and the tasks that need to be completed to find the team members with the most relevant skills and make sure they have all the project resources they need when they need them.

(iii) **Resource Leveling:** The purpose of resource leveling is to assess your team members' skills and find opportunities for better resource allocation. By thoroughly understanding what your team members can offer, you can assign tasks based on their abilities to maximize resource efficiency.

(iv) **Resource Utilization:** Careful resource planning is equally as important as resource tracking. Project managers need to keep track of resource utilization to spot any resources that are not being used efficiently. Then they can simply reallocate those resources or make changes to the resource management plan.

**Multiples Choice Questions**

1. Which of the following is the first Step of the Ladder the Start Up Entrepreneur has to Ascent:
   (a) Date with Yourself for A Decision
   (b) Decide on Location and Site
   (c) Analyze Yourself and Your Objectives
   (d) Choose Aline

**Answer: (c)**

2. The ability or self-efficacy for entrepreneurship is also called –
   (a) Entrepreneur self-efficacy (ESE)
   (b) Entrepreneurial self-efficacy (ESE)
   (c) Entrepreneurial self-efficiency (ESE)
   (d) Enterprise self-efficacy (ESE)

**Answer (b)**

3. Which of the following factors affect the capital structure?
   (a) Company life cycle
   (b) Cost of capital
   (c) Use of leverage
   (d) All of the above

**Answer (d)**

4. Which one of the following statements is not correct?
   (a) Entrepreneurs do not leave their learning capabilities to chance.
   (b) Entrepreneurial leadership will change as per the requirement in different phases of a lifecycle in a business.
   (c) Entrepreneurs see and act on opportunities.
   (d) During the growth phase, entrepreneurs are reluctant to ensure that their businesses get noticed in the marketplace.

**Answer (d)**

# PRACTICAL Advice

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START

01 Read Study Notes, MQPs, E-Bulletin Attend Online sessions

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

*Message from*

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

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

GOOD LUCK
Be prepared and be successful

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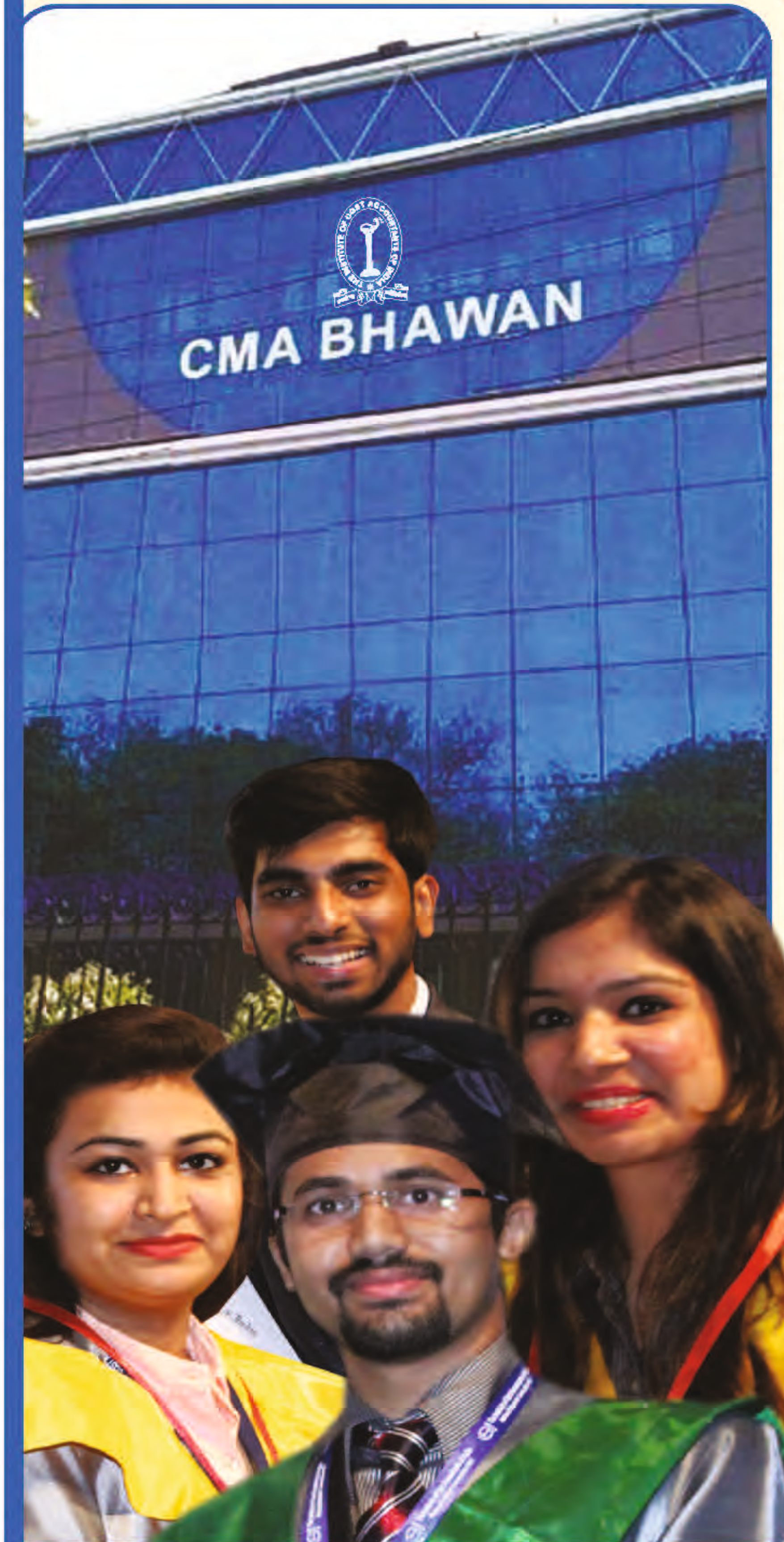


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# Few Snapshots

CMA Navneet Kumar Jain CCM and NIRC RCMs CMA Manish Kandpal and CMA Jeewan Chandra, held a fruitful discussion with CBIC Board Member Ms. V. Rama Mathew to delve into the potential utility of cost records data

Signing of the Agreement with National Council for Vocational Education and Training (NCVET), Ministry of Skill Development & Entrepreneurship, Government of India. Institute has been recognised as an Awarding Body (Dual Category) by the NCVET.

CMA Manoj Kumar Anand, Council Member, ICMAI had a meeting Ms. Helen Brand OBE, Chief Executive, ACCA UK along with Md. Sajid Khan, Director - India, ACCA, and Mr. Sundeep Jakhar, Head of Public Affairs - India, ACCA at CMA Bhawan, New Delhi on 30th October 2023.

CMA Navneet Jain CCM, CMA Jeewan Chandra, RCM-NIRC & CMA Varun Sukhija, Chairman Faridabad Chapter alongwith other members visited PCIT Faridabad and Gurgaon, Mr. Anand Kedia Ji and discussed about empanelment of CMAs for Inventory Valuation u/s 142 (2A) of Income Tax Act,1961.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICMAI felicitating Smt. Rajeshwari Singh Muni, CMD of National Insurance Company Limited.

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