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CMA Student E - Bulletin

FINAL

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Behind every successful business decision, there is always a CMA

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YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE
Update

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

GROUP: iii, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

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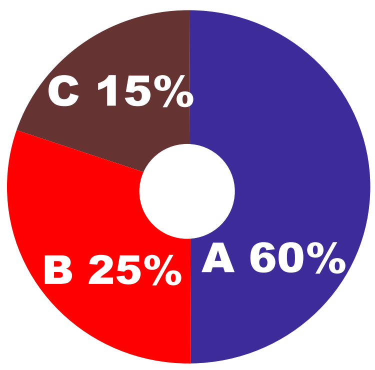
Your Preparation Quick Takes



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.

MANAGEMENT OF A COMPANY

VARIOUS LAWS RELATING TO BANKING

- THE BANKERS BOOK EVIDENCE ACT, 1891
- INTEREST ACT
- BANKING REGULATION ACT, 1949
- RESERVE BANK OF INDIA ACT, 1934

RECOVERY AND ENFORCEMENT LAWS

- THE RECOVERY OF DEBT DUE TO BANKS AND FINANCIAL INSTITUTIONS ACT, 1993
- SECURITISATION AND ENFORCEMENBT OF SCURITY ACT, 2002

COMMON LAWS RELEVENT TO BANKING

- INDIAN CONTRACT ACT
- CONSUMER PROTECTION ACT, 1986
- NEGOTIABLE INSTRUMENTS ACT, 1881

BANKER CUSTOMER RELATIONS

- DEBTOR – CREDITOR
- PRINCIPAL – AGENT
- TRUSTEE - BENEFICIARY
- BAILOR - BAILEE
- CONSULTANT
- LEASOR - LESSEE

LAW RELATING TO THE BANKERS BOOK EVIDENCE ACT, 1891

- A LAW TO EXPLAIN THE PROCEDURE OF TAKING BANKERS BOOK AS EVIDENCE
- INCLUDES LEDGERS, DAY BOOKS, CASH BOOKS, ACCOUNTS BOOKS AND ALL OTHER BOOKS USED IN DAY TO DAY OPERATIONS
- LEGAL PROCEEDINGS MEANS ANY PROCEEDING WHERE EVIDENCE IS REQUIRED, INCLUDING ARBITRATION, AND POLICE INVESTIGATION
- CERTIFIED COPY IS COPY OF ANY PART OF THE BANKERS BOOK CERTIFIED AS TRUE COPY BY AN OFFICER AUTHORISED BY THE BANK, WHERE THE BOOK HAS BEEN DESTROYED, A FURTHER CERTIFICATE IS REQUIRED. CERTIFIED COPY SHALL BE TAKEN AS PRIMA FACIE EVIDENCE OF EXISTENCE OF SUCH ENTRY IN THE ORIGINAL BOOKS OF THE BANK.
- BANK CANNOT BE COMPELLED TO PRODUCE ANY EVIDENCE, IF BANK IS NOT A PARTY, UNLESS BY ORDER OF A COUR
- INSPECTION OF BOOKS AND TAKING COPIES CAN BE ALLOWED TO ANY PARTY WITH THE ORDER OF THE COURT...

BANKING REGULATION ACT, 1949

CONSTITUTION OF BANKS

- BODY CORPORATE UNDER SPECIAL STATUTE

- COMPANY REGD. UNDER COMPANIES ACT.
- COOPERATIVE SOCIETY-COOPERATIVE BANK
- PUBLIC SECTOR BANKS-TAKEN OVER BANKS UNDER BANK NATIONISATION AVT, 1970
- FOREIGN BANKS-REGD OUTSIDE INDIA AND DOING BISINESS WITH PERMISSION OF RBI
- LOCAL AREA BANKS

LICENCING OF BANKING

- NO CO. TO CARRY ANY BANKING BUSINESS WITHOUT LICENCE TO BE GIVEN BY RBI ON APPLICATION AFTER CONSIDERING THE FOLLOWING:

1. POSITION TO PAY DEPOSITORS
2. AFFAIRS NOT CONDUCTED WHICH IS DETRIMENTAL TO DEPOSITORS
3. NOT PREJUDICIAL TO PUBLIC INTEREST
4. ADEQUATE CAPITAL STRUCTURE AND EARNING PROSPECTS

- NO COMPANY SHALL USE AS PART OF ITS NAME ANY WORD AS BANK, BANKER, BANKING, BANKING COMPANY AND SHALL NOT DO BANKING BUSINESS UNLESS SUCH NAME IS USED.
- CAN BE CANCELLED ON CEASING TO DO BANKING BUSINESS OR NON-FULFILMENT OF CONDITIONS. APPEAL TO CG WITHIN 30 DAYS.
- PERMISSION IS REQD. FOR OPENING BRANCHES/PLACE OF BUSINESS IN INDIA/OUTSIDE.TEMPORARY COLLECTION CENTRES UPTO ONE MONTH OR SHIFTING OF PREMISES DO NOT REQUIRE PERMISSION. APPLICATIONS ARE TO BE MADE ONCE IN A YEAR BY EACH BANK.
- RBI HAS MADE GUIDELINES FOR ESTABLISHMENT OF NEW BANKS IN THE PRIVATE SECTOR

MAIN FUNCTIONS OF COMMERCIAL BANK :u/s 8(1) of BANKING REGULATION ACT, 1949

- ACCEPTING DEPOSITS
- GRANTING ADVANCES
- BILL DISCOUNTING
- DEALING IN FOREIGN EXCHANGE
- GRANTING AND ISSUING OF LETTER OF CREDIT, TRAVELLER'S CHEQUE AND CIRCULAR NOTES;
- BUYING, SELLING AND DEALING IN BULLION AND SPECIES;
- BUYING AND SELLING OF FOREIGN EXCHANGE INCLUDING FOREIGN BANK NOTES;
- THE ACQUIRING, HOLDING, ISSUING ON COMMISSION, UNDER - WRITING AND DEALING IN STOCKS, FUNDS, SHARES, DEBENTURE STOCK, BONDS, OBLIGATIONS, SECURITIES AND INVESTMENT OF ALL KINDS;
- PURCHASING AND SELLING OF BONDS SCRIPTS OR OTHER FORMS OF SECURITIES ON BEHALF OF THE CONSTITUENTS OR OTHERS, THE NEGOTIATING OF LOANS AND ADVANCES;
- THE RECEIVING OF ALL KINDS OF BONDS OR VALUABLES, ON DEPOSIT OR FOR SAFE CUSTODY OR OTHERWISE; THE PROVIDING OF SAFE DEPOSIT VAULTS;
- THE COLLECTING AND TRANSMITTING OF MONEY AND SECURITIES;
- THE BORROWING, RAISING OR TAKING UP OF MONEY, THE LENDING OR ADVANCING OF MONEY EITHER WITH OR WITHOUT SECURITY;
- THE DRAWING, MAKING, ACCEPTING, DISCOUNTING, BUYING, SELLING AND DEALING IN BILLS OF EXCHANGE, HUNDIES, PROMISSORY NOTES, COUPONS, DRAFTS, BILLS OF LADING, RAILWAY RECEIPTS, WARRANTS, DEBENTURES, CERTIFICATES, SCRIPS AND OTHER INSTRUMENTS AND SECURITIES WHETHER TRANSFERABLE OR NEGOTIABLE OR NOT.

ANCILLARY FUNCTIONS: u/s 6(1) of BANKING REGULATION ACT, 1949

- ACTING AS AGENT FOR ANY GOVERNMENT OR LOCAL AUTHORITY OR ANY OTHER PERSON OR PERSONS;
- THE CARRYING ON OF AGENCY BUSINESS OF ANY DESCRIPTION INCLUDING THE CLEARING OR FORWARDING OF GOODS, GIVING OF RECEIPTS AND DISCHARGES AND OTHERWISE ACTING AS AN ATTORNEY ON BEHALF OF CUSTOMERS BUT EXCLUDING THE BUSINESS OF A MANAGING AGENT OR SECRETARY AND TREASURER OF A COMPANY;
- CONTRACTING FOR PUBLIC OR PRIVATE LOANS AND NEGOTIATING AND ISSUING THE SAME;
- EFFECTING, INSURING, GUARANTING, UNDERWRITING, PARTICIPATING IN MANAGING AND CARRYING OUT OF ANY ISSUES PUBLIC OR PRIVATE OF STATE, MUNICIPAL OR OTHER LOANS OR OF SHARES, STOCK, DEBENTURE OR DEBENTURE STOCK OF ANY COMPANY, CORPORATE OR ASSOCIATION AND LENDING OF MONEY FOR THE PURPOSE OF ANY SUCH ISSUE;
- CARRYING ON AND TRANSACTING EVERY KIND OF GUARANTEE ANDINDEMNITY BUSINESS;
- MANAGING, SELLING AND REALISING ANY PROPERTY WHICH MAY COME INTO THE POSSESSION OF THE COMPANY IN SATISFACTION OR PART - SATISFACTION OF ANY OF ITS CLAIMS;

- ACQUIRING AND HOLDING AND GENERALLY DEALING WITH ANY TITLE / PROPERTY OR ANY RIGHT, OR INTEREST IN ANY SUCH PROPERTY WHICH MAY FORM THE SECURITY OR PART OF THE SECURITY FOR ANY LOANS OR ADVANCES OR WHICH MAY BE CONNECTED WITH ANY SUCH SECURITY;
- UNDERTAKING AND EXECUTING TRUSTS; AND
- UNDERTAKING THE ADMINIST
- RATION OF ESTATES AS EXECUTOR, TRUSTEE.

TREASURY MANAGEMENT

RBI Guideline For Asset Liability Management (ALM)

RBI has issued broad guidelines for ALM system in banks.

Risks involved in ALM
1. Liquidity Risk
2. Interest Rate Risk
3. Currency Risk

LENDING POLICY

1.General Principle of lending:

1.Purpose
2.Safety
3.Security
4.Liqudity
5.Profitability
6.Diversification

2. Security

A Banker while financing any borrower ensures that he gets a proper & adequate security to fallback upon in case of an emergency.

Different types of securities, which may be acceptable to the bank, are as under:

1. Land & Building
2. Plant & Machinery
3. Goods
4. Document of Title of Goods
5. Book Debts
6. Govt. Securities
7. Share& Debenture
8. Insurance Policy
9. Govt. Supply Bills
10. Term Deposit Receipts

Importance of securities

The need of obtaining securities against any advance can be summarized as under:

1.In case of default, bank can dispose off the security by private treaty or in public auction.
2.If specifically charged, it becomes difficult for the customer to dispose it off.
3.End-use of funds can be ensured in case of security like plant & machinery etc. by physical verification
4.It shows the borrower's financial stake in the business.

<u>Requirement of acceptable securities:</u>

1.Marketabiliy
2.Storability
3.Certainty of value
4.Stability of value
5. Easy transferability
6.Liquidity
7.Clear & Marketable Title

<u>Various Charges in Lending Policy:</u>

1. Pledge
2. Hypothecation
3. Mortgage
4. Set-off
5. Assignments
6. Lien

Minimization of risk in Lending:

With a view to minimize the risk involved in lending, banks follow the acceptable norms:
1.Ability
2.Security
3.Profitability
4.Liqudity
5.Purpose of the Loan
6.Spread
7.Control and Follow up

SOME IMPORTANT ASPECTS IN LENDING AREAS
1. Prime lending Rate (PLR)
2. Loan Syndication/ consortium lending
3. Bridge Loan
4. Working Capital Demand Loan
5. Factoring
6. Securitisation

3. DEVELOPMENT BANKING

Role of Various banks in this area:
1.IFCI
2.ICICI
3.IDBI
4.SIDBI
5.IIBI
6.SFCs
7.EXIM BANK
8.UTI
9.NHB
10.NABARD
11.LIC
12.GIC

A. Development Banking VS Commercial Banking
B. Development Banking VS Universal Banking
C. Venture Capital
D. Securitisation

4. RBI --- IT'S FUNCTION & RELATIONSHIP WITH OTHER BANKS

A. Supervisory control over other banks
B. Inspection of Banks
C. Power to issue Direction
D. Control over top management
E. Foreign Exchange Control
F. Managing Govt. Treasury
G. Licensing and Controlling Commercial Banks

Main Function of RBI:
1. Issue of Currency Notes
2. Banker to the Govt.
3. Banker's Bank
4. Credit Control
5. Foreign Exchange Management

BANC-ASSURNCE
Banc-Assurance is a term which refers to the selling of insurance policies through a bank's established distribution channels.

Banks, which sell insurance product through their branches, the present law require that all directors and officials selling insurance under go training and pass the agent examination.

NARROW BANKING

Narrow Banking is one, which would only invest its deposit in very safe and liquid assets such as short term Government Securities or high quality commercial papers. As a result, risk of failure gets reduced, if not eliminated.

UNIVERSAL BANKING

Universal Banking conjures up, an image of modern banking specifically a financial supermarket wherein a customer will be provided with all types of financial services for which he has to visit many establishment for now.

New Banking Norms:

New Banking Norms announced by RBI on 3rd January 2001. The main features are:

1. Initial minimum paid up capital should be Rs.300 Crores , to be raised to Rs. 500 Crores within 3 years of business.
2. Promoter's contribution at any point of time should be minimum of 40% of paid up capital.
3. NRI participation in primary equity should be maximum 40%.
4. No Bank can be promoted by any large industrial house.
5. The new bank will not be allowed to set up a subsidiary or mutual fund for at least 3 years from commencing business
6. NBFCs having AAA rating can come into banking business with minimum CAR 12% and net NPA should not be more than 5 %.

US GAAP

In order to provide greater transparency to the Bank's Balance Sheets and full disclosures and to confirm to the International standards, some of the Commercial Banks decided to adopt Generally Accepted Accounting Period in the United States or US GAAP.

Commercial Banks in to Insurance Business

To enter into Insurance Business by the Commercial Banks, the RBI stipulates the following guidelines:

1. The Net Worth of the Commercial Bank should be Rs. 500Crores.
2. Capital Adequacy Ratio should not less than 10%
3. Share of participation in JV not to exceed 10% of Net Worth.
4. Net NPAs should be 1% below than industry average.
5. Total mount invested in all subsidiaries and JVs not to exceed 20% of Net Worth
6. Participation in JV not to exceed 30% of Paid up Capital
7. Satisfactory track record as Commercial Bank

OFF – SHORE BANKING

Off – Shore Banking refers to wholesale International Banking Business involving non-resident foreign currency denominated assets and liabilities. It refers only to non-resident funds and does not mix with domestic banking. Off – Shore Banking comprises mainly wholesale banking services like project financing, syndication of large loans etc. Off – Shore Banking enjoys a regulatory climate in which control on tax enough to permit the unrestricted transfer of capital among non-residents, minimal taxation and relatively small reserve requirement.

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150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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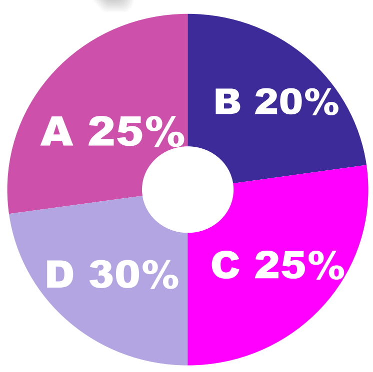
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

LEASING DECISIONS

- **Impact of Lease on Financial Statements**

Any acquisition of assets under lease vis-à-vis an outright purchase by loan will have significant difference in impact on both Profit and Loss Account and Balance Sheet of the Lessee especially in case of operating lease. The following illustration shows the differential impact of a lease transaction vis-à-vis outright buy transaction financed by loan.

Illustration 6:

Sigma Ltd. is proposing to acquire special purpose machinery. The initial cost of machine is Rs. 8,00,000. Depreciation allowance is given @ 20% p.a. on reducing balance method. To finance the entire cost, the company intend to get a loan of Rs. 8,00,000 on interest @ 18% p.a.

Another proposal has come for review to take the same machinery on lease basis on annual lease rentals of Rs. 2,40,000 for a period of 5 years. How would the acquisition of assets under the above two alternatives effect the Profit and Loss Account and Balance Sheet? The Profit and Loss Account and the Balance Sheet of Sigma Ltd. before the acquisition are given below:

Profit and Loss Account of Sigma Ltd.

Particulars	Rs.	Particulars	Rs.
To Administrative & Other exp. To Net Profit	18,00,000 10,00,000	By Gross Profit	28,00,000
	28,00,000		28,00,000

Balance Sheet of Sigma Ltd.

Liabilities	Rs.	Assets	Rs.
Equity Current Liabilities	14,00,000 6,00,000	Fixed Assets Current Assets	12,00,000 8,00,000
	20,00,000		20,00,000

Solution:

(a) Effects on Profit and Loss Account
(i) When asset is purchased outright by taking a loan

Profit and Loss Account of Sigma Ltd.

Particulars	Rs.	Particulars	Rs.
To Administrative & Other exp. To Interest on loan (@18% on Rs.8,00,000) To Depreciation on machinery (@20% on Rs.8,00,000) To Net Profit	18,00,000 1,44,000 1,60,000 6,96,000	By Gross Profit	28,00,000
	28,00,000		28,00,000

(ii) When asset is taken on lease

Profit and Loss Account of Sigma Ltd.

Particulars	Rs.	Particulars	Rs.
To Administrative & Other exp. To Lease Rent To Net Profit	18,00,000 2,40,000 7,60,000	By Gross Profit	28,00,000
	28,00,000		28,00,000

(a) Effects on Balance Sheet
(i) When asset is purchased outright by taking a loan

Balance Sheet of Sigma Ltd.

Liabilities	Rs.	Assets	Rs.
Equity Debt Current Liabilities	14,00,000 8,00,000 6,00,000	Fixed Assets (12,00,000+8,00,000) Current Assets	20,00,000 8,00,000
	28,00,000		28,00,000

(ii) When asset is taken on lease

Balance Sheet of Sigma Ltd.

Liabilities	Rs.	Assets	Rs.
Equity Current Liabilities	14,00,000 6,00,000	Fixed Assets Current Assets	12,00,000 8,00,000
	20,00,000		20,00,000

- ***A Comprehensive Problem on Lease Decision***

A factory needs an equipment for use. It has the option of outright purchase or leasing the equipment. Data are given below. Recommend the best option that the factory should choose.

Option I
Purchase outright for a cost of Rs. 80 lakhs. It is to be entirely financed by a term loan @ 18% p.a. interest on outstanding payable on a yearly basis. The term loan to be repaid in eight equal instalments of Rs. 10 lakhs each, beginning from second year-end. The economic life of the equipment is assessed to be ten years. The equipment will be depreciated @ 10% p.a. on straight line basis, with insignificant salvage value at the end of the economic life? The estimated maintenance expenses would be as detailed below:

Year	1	2	3	4	5	6	7	8	9	10
MC*	4.00	4.40	4.88	5.47	6.18	7.05	8.11	9.41	11.01	13.00

*MC = maintenance cost in Rs. Lakhs

Option II
The equipment may be leased for a ten-year period. The maintenance of the equipment will be done by the lessor. The lessee has to pay Rs. 18 lakhs annual rental at the beginning of each year over the lease period.
Note - Assume that the lessee is in a tax bracket of 50% and average cost of capital of the lessee firm as 14% p.a.

Solution:
Option I: Purchase **(Rs. in lakhs)**

Year	Loan repaid	Amount balance	Interest	MC	Int. + MC+ Dep.	Tax Savings	Outflow Int. +MC	Total Outflow
1	-	80	14.40	4.00	26.40	13.20	5.20	5.20
2	10	70	14.40	4.40	26.80	13.40	5.40	15.40
3	10	60	12.60	4.88	25.48	12.74	4.74	14.74
4	10	50	10.80	5.47	24.27	12.13	4.14	14.14
5	10	40	9.00	6,18	23.18	11.59	3.59	1339
6	10	30	7.20	7.05	22.25	22.25	11.13	13.13
7	10	20	5.40	8.11	21.51	10.76	2.76	12.76
8	10	10	3.60	9.41	21.01	10.50	2.50	1230
9	10	0	1.80	11.01	20.81	10.41	2.41	12.41
10	-	---	-	13.00	21.00	10.50	2.50	2.50

Calculation for Present Values

Year	Total Cash Outflow	PVIF @ 14%	PV of Cash Outflow
1	5.20	0.877	4.56
2	15.40	0.769	11.84
3	14.74	0.675	9.95
4	14.14	0.592	8.37
5	1339	0.519	7.05
6	13.13	0.465	6.11
7	12.76	0.400	5.10
8	1230	0.351	4.39
9	12.41	0.308	3.82
10	2.50	0.270	0.67
Total			61.86

Option II: Lease **(Rs. in lakhs)**

Year	Lease rent	Lease rent after tax	PVIF @14%	Present Value
1	18	9	1.000	9.00
2	18	9	0.877	7.89
3	18	9	0.769	6.92
4	18	9	0.675	6,07
5	18	9	0.592	5.33
6	18	9	0.519	4.67
7	18	9	0.465	4.19
8	18	9	0.400	3.60
9	18	9	0.351	3.16
10	18	9	0.308	2.77
Total present value of cash outflows		9		= 53.60

Comment: The present value of net cash flows is lowest for lease option; hence it is suggested to take equipment on lease basis.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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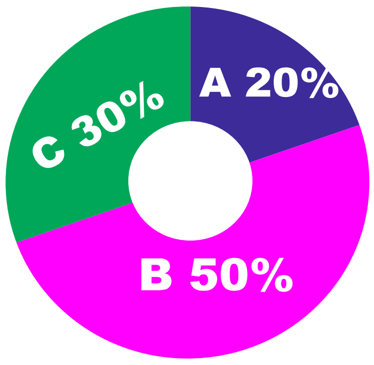
Your Preparation Quick Takes



Syllabus Structure

A Cost Management **20%**

B Strategic Cost Management Tools and Techniques **50%**

C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Learning Objectives:

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

- Is there a plan for strategic cost management?
- Have the controlling functions for each significant cost in the organization been identified?
- Are there resources devoted to finding or obtaining new approaches to breaking cost barriers?
- Is cost modelling being used or is there an active effort to develop or buy cost modelling capability?

Employee Cost Optimisation

Notes from Facebook's Talent Management Practices

01.00 Warm Up

Cost optimization is a business-focused, continuous discipline to drive spending and cost reduction, while maximizing business value. Employee Cost Optimisation is one of the key strategies being adopted by several firms in their endeavour to continue delivering value to shareholders and enhancing competitive advantage over peers.

COVID-19 devastating the global economy and repetitively dipping bottom lines, every organization is under persistent pressure to rethink as to how it could continue creating value. Changes in business models, employee preferences, organizational size and structure and service delivery have made old workforce models obsolete, and employers are struggling to keep up.

Organizations need to consider how they can best allocate their resources amid this pressure. Traditional approaches focus on reducing the organization's footprint. Today, more businesses need to consider cost optimisation as an objective secondary to accomplishing their primary goal of becoming a more effective and innovative organization.

02.00 Facebook

Almost everyone is aware of Facebook. However, the unique aspects of the firm that almost no one is aware of are its distinct and powerful talent management practices towards employee cost optimisation.

In most cases, it takes literally several decades to develop an exceptional company that has a unique set of talent management practices that produce phenomenal business results. But occasionally there are exceptions. Apple became exceptional again in little more than a decade after the return of Steve Jobs. Google developed exceptional people management practices and business results in much less than a decade. But Facebook has gone from a college dorm room idea to an undisputed social media dominance in literally less than a handful of years.

At Facebook within 15 months of its IPO, the average employee produced over $1.3 million in revenue and $120,000 in profit each a year. The firm's global product reaches over 1.2 billion users, its stock price has been on a tear, and it has successfully shifted from an exclusively PC web-based platform to one that instead relies on the rapid growth of the mobile platform. Glassdoor has rated the firm No. 1 for employee satisfaction and its employees rate its CEO No. 1 with an almost perfect 99 percent approval rating. It is simply amazing!

03.00 Unique Talent Management Practices

Facebook's talent management practices are unique and many have clearly not been directly copied from talent competitors like Google, Twitter, and Apple. Here goes a list of ten.

03.01 Corporate Asset: Employees are a high value Corporate Asset

Nothing spurs executives to focus on talent management like quantifying in dollars the added economic value of having top-performing versus average ones. Facebook (along with Google and Apple) has taken the time to put a dollar value on its employee assets. For example, Facebook's Director of Corporate Development Vaughan Smith has estimated that when recruiting, "Engineers are worth half a million to one million"

(each). When a single engineer is worth up to $1 million, you strongly invest in recruiting and in increasing their productivity, and you certainly don't focus on the relatively miniscule cost per hire that it takes to recruit them.

03.02 Employees' Choices: WOW features that provide employees' amazing choices

Facebook provides the needed paperwork to the employees before they start. Its approach is unique because it is extended over an industry-leading six weeks. And during that time, rather than watching videos and hearing lectures, employees actually work on teams that spend their time working on multiple real projects. Each employee is assigned a mentor. But the most powerful part of the onboarding is that at the end of the process, each employee is asked, "Which team and project within Facebook would you like to join?" Probably, there is no other organization on the planet that gives new hires a team choice. Further, Facebook's 'Hack a month' process allows employees who have worked on a project for a year to select their own next project team and after working with them for a month, if they like it, they can stay.

03.03 Amazing Food: It doesn't just have free food, it offers amazing food

With a relatively young and healthy employee population that doesn't have to overly worry about its weight, what could be more compelling than a free ice cream store and bakery? A dozen varieties of ice cream, low-fat yogurt, milkshakes, sundaes, as well as cakes, pies, and the absolutely essential cookies, all unlimited and for free. Facebook's open-pit barbecue is particularly compelling because it is centrally located, and as a result, the smoke from the barbecue waffles throughout the campus making employees think of barbecue. It makes sense that it offers food day and night that fits every "global fast-food group." Employees clearly take advantage of the free food because its roughly 2,400 employees at headquarters eat an average of 7,200 meals a day. At Facebook alcohol is available on Friday happy hours and during employee-generated special events.

03.04 Speed and Risk-Taking: Its management approach focuses on speed and risk-taking

At Facebook, management proactively encourages employees to move incredibly fast, even though it will obviously result in some failures. One of Facebook's most prominent slogans is "Move fast and break things." Facebook's culture encourages bold decision-making and risk-taking. Its approach is illustrated by these less-than-subtle slogans: "The riskiest thing is to take no risks," and "We encourage everyone to make bold decisions, even if that means being wrong some of the time," and "In a world that's changing so quickly, you're guaranteed to fail if you don't take any risks." The strong culture enabled a 180-degree shift in direction when the market requires it.

03.05 Recruiting: A focus on excellence in recruiting

It is ranked the No. 1 employer brand — Facebook excels at spreading its "best place to work" employer brand image. In 2013 Facebook was listed as the No. 1 employer brand by Glassdoor for having the most satisfied employees. It was No. 1 because its employees are "Challenged every day to do your best work" and "The company's leadership truly believes in Facebook's mission to make the world more open and connected."

Face book adopts acqui-hiring wherein usually smaller firms are acquired primarily for their talent, rather than for their products or customers. Its recruiting focus is "If you can build awesome stuff and have big impact, that's all we're really looking for." Not requiring a completed degree gives it a chance to land top talent long before other firms, which must wait until after they graduate. Facebook, like many other Silicon Valley firms, relies heavily on Internet-based technical contests to find hidden or "non-obvious" talent from around the world. Each year Facebook visits more than a dozen college campuses and while there, challenges self-selected teams to come up with solutions to real technical problems. The finalists are brought to the Facebook headquarters for "Camp Hackathon," where their solutions are judged and the winners get a small prize and an offer of a summer internship. And, Its CEO acts its chief recruiter.

03.06 Employee Benefits: Economic rewards and employee benefits

Facebook offers unlimited sick days, apart from 21 days of paid time off each year (essentially a month off) for even new employees. It also offers "four months paid parental leave for both spouses, reimbursement for some daycare and adoption fees, and $4,000 "baby cash" for a new arrival. Employee rewards are differentiated based on performance results and from data from its comprehensive coworker feedback process. One internal source estimates that the reward differential between a bottom and top performer at the same level can be up to 300 percent. Although the firm appears to offer competitive salaries, the prime economic incentive are 'Restricted Stock Units', which keep employees focused on producing business results.

03.07 Collaboration and Innovation: The physical space encourages openness, collaboration and innovation

Rather than offices or cubicles, everyone - it seems - has a simple standing desk (for its health benefits) but also because it improves sharing and collaboration. Without obstructions between employees, one can easily see and hear a dozen coworkers whenever they have an issue or a success.

Like other firms in the neighborhood (Google, Apple, and Yahoo) it encourages physically showing up to work by offering great food, amenities, and a free shuttle ride to work. In a culture where continuous rapid innovation is the lifeblood, the data simply shows that face-to-face interaction between non-team members is the driver of collaboration.

The firm informally emphasizes avoiding scheduled meetings on Wednesday. This midweek meeting-less day assures "makers" (programmers) will have at least one complete a day of uninterrupted time. Being free of interruptions is especially important to programmers because a single interruption like a meeting can require a whole or half day to get back into the flow of their work.

In order to make it as easy as possible for employees to get to work, Facebook offers free Wi-Fi shuttle buses from distant locations as far as an hour away. The buses not only improve attendance but they also increase productivity because employees can both collaborate and work while they are riding. The firm also offers free train passes, van pools, and of course free auto parking.

Of course, Facebook has an onsite fitness center, and for busy employees, there are even treadmill desks for workouts when you are working. For fun, it has a fully stocked videogame room, a movie theater, a print shop, a skateboard course, and free on-campus bicycles. In addition, the campus is located right on San Francisco Bay, so it has a beautiful walking and biking path with a breath-taking view. Facebook employees enjoy free wash-and-fold laundry services, haircuts, and dry cleaning. There is also an onsite doctor's office, acupuncturist, and a chiropractor, so there is little need to leave campus for personal services, and many stay later because they have few personal errands to run after work.

03.08 Employee Impact: Unique approaches for managing employees
Leaders at Facebook also realize the importance of impact. So, in order to ensure that employee impact is real, engineering staffing levels are purposely set to maximize the direct impact that an individual engineer has on customers. Imagine the excitement of every engineer knowing that what they do, on average, impacts over 1 million customers.

Facebook is fanatic about continuous feedback. Formal performance appraisal is done every six months, based on the results received from manager and employee online feedback tools (feedback is received typically from up to seven individuals). Managers and employees are also provided with real-time success metrics that quantify their results.

If there were to be a dress code at Facebook, it would be one that discourages "over dressing." In an organization where the CEO is famous for wearing only hoodies or T-shirts, it is obvious that if you are going to impress a coworker, it won't be through your clothes, so it will have to be through your work.

03.09 Openness: Transparency and openness are emphasized
Facebook believes that openness should also apply to its company culture. Facebook's openness is illustrated on most Friday afternoons when the CEO makes himself available in an open to all-employees q-and-a meeting. During that meeting the CEO listens to ideas and he answers all questions from the employees. Most who describe him say that there is often a healthy exchange of often contrasting perspectives.

03.10 Final Sprint
Toward the end of a project when a team is "sprinting" toward a product shipping date, a dedicated war room can be set up. The war room ensures that the team has a dedicated workspace, but it also sends a message to all others that this project is important, so they should support the final sprint. Some even use a countdown clock so that everyone knows unambiguously when they must deliver.

04.00 Assimilation
Facebook does deserve its piece of emulation because of its many thoroughly thought out and unique approaches to talent management. Its real triumph and strength lie in its laser focus. Unlike many great firms that try to do numerous things in many diverse areas, Facebook is laser focused on connecting the world together. Every employee and leader from the top down to the bottom seems to know exactly what the role of the company is and how they contribute to it. The level of openness and employee trust is second to none, as is its willingness to try new things in talent management that can't be benchmarked because no one else has ever tried them before.

05.00 Quick Take
The innovative measures adopted by Facebook are to be construed as indicative and not as conclusive. The unambiguous fact is that Talent Management holds the master key to Employee Cost Optimisation.

(**Resource:** Dr. John Sullivan; September 16, 2013; www.ere.net/a-case-study-of-facebooks-simply-amazing-talent-management-practices; 27.07.2019)

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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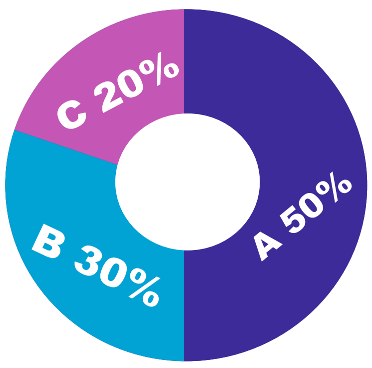
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

INTEREST u/s 234A, 234B & 234C

Under the Income-tax Act, different types of interests are levied for various kinds of delays/defaults. In this, we are discussing about the provisions of sec. 234A, 234B and 234C dealing with interest levied for (i) delay in filing the return of income; (ii) non-payment or short payment of advance tax; and (iii) non-payment or short payment of individual instalment or instalments of advance tax (i.e., deferment of advance tax).

Before understanding the provisions of sec. 234A, 234B and 234C it is important to understand the provisions of Rule 119A which gives the manner of computation of interest under the Income-tax Act

1. ***Rounding off the amount on which interest is to be calculated***
   Amount on which such interest is calculated will be rounded off to the multiple of 100 by ignoring any fraction of 100. E.g., amount on which interest is to be calculated is ₹ 240 or ₹ 290, then it is to be rounded off to ₹ 200 by ignoring fraction of ₹ 40 or ₹ 90.
2. ***Rounding off the period for which interest is to be calculated***
   - When interest is calculated on monthly basis, any fraction of the month shall be taken as full month. E.g., Interest is to be calculated from 1st August to 5th December, then interest shall be calculated for 5 months.
   - When interest is calculated on annual basis, any fraction of the month shall be ignored.

Interest for default in furnishing return of income [Sec. 234A]

Condition: Where a person, who is required to furnish return of income -

a) fails to furnish a return; or
b) furnishes it after the due date specified u/s 139(1).

Amount on which interest is to be charged: On the amount of tax determined u/s 143(1) or on regular assessment as reduced by advance tax paid and tax deducted or collected at source, if any.
In other words, interest is to be calculated on the following amount:

Particulars	Amount	Amount
Tax determined u/s 143(1) or on Regular assessment*		***
Less: Advance Tax paid	***	
Relief u/s 89 or 90 or 90A or 91	***	
Credit allowed u/s 115JAA / 115JD (MAT or AMT Credit)	***	
Tax deducted/collected at source	***	***
Amount for Interest Calculation		***

* Regular Assessment means assessment u/s 143(3)/144/147 (first time)/153A(first time).

Rate of Interest: Simple interest @ 1% per month or part thereof
Period: For every month or part of a month commencing from the day immediately following the due date for furnishing return for the relevant assessment year and ending on:

- Where the return is furnished after due date : Date of furnishing return
- Where the return is not furnished at all : Date of completion of assessment u/s 144

Taxpoint

1. For the purpose of self-assessment u/s 140A, interest shall be calculated on tax liability as declared in the return by the assessee.
2. As interest liability u/s 234A is different, in case of assessment by assessee himself (i.e. self- assessment) and assessment made by income tax authority (i.e. assessment u/s 143(1) or regular assessment), therefore, interest paid u/s 234A at the time of self-

assessment shall be reduced from final interest liability u/s 234A.

Interest for default in paying advance tax [Sec. 234B]

Condition: Where a person, who is required to pay advance tax, fails to pay -
(a) advance tax at all; or
(b) 90% of assessed tax as advance tax.

Amount on which interest is to be charged –

Particulars	Interest
Where no tax is paid u/s 140A	Assessed tax – Advance tax paid
Where tax is paid u/s 140A	
Period upto the date on which tax as per self-assessment is paid	Assessed tax – Advance tax paid
Period after the date on which the tax as per self assessment is paid	Assessed Tax – Advance tax paid – Tax paid on Self Assessment*
# Assessed tax means tax determined u/s 143(1) or Regular assessment as reduced by - Tax deducted or collected at source; - Relief allowed u/s 89 or 90 or 90A or 91; Credit allowed u/s 115JAA or 115JD (MAT or AMT Credit)	
Where amount paid under self-assessment falls short of tax and interest calculated as per self-assessment, then amount paid shall be first adjusted towards interest and balance, if any, shall be adjusted towards tax payable.	

Rate of interest: Simple interest @ 1% per month or part thereof

Period: For every month or part of a month commencing from 1st day of April of the relevant assessment year and ending on the date of determination of tax u/s 143(1) or on regular assessment.

Taxpoint

1. For the purpose of self-assessment u/s 140A, interest shall be calculated on tax as per income shown in the return.
2. As interest liability u/s 234B is different in case of assessment by assessee himself (i.e. self- assessment) and assessment made by income tax authority (i.e. assessment u/s 143(1), regular assessment), therefore interest paid u/s 234B at the time of self-assessment shall be reduced from final interest liability u/s 234A.

For deferment of Advance Tax [Sec. 234C]

Condition: Payment of advance tax is to be made at specified percentage within given dates*. In case assessee fails to pay the amount or pays lesser amount as required by the schedule, then assessee will have to pay interest u/s 234C for such deferment.

Amount on which interest is payable

Particulars	Amount
Specified % of tax* on the total income declared in the return filed by the assessee	***
Less: Tax deducted/collected at source	***
Less: Amount of advance tax paid on or before the due date of payment as per the advance tax payment schedule.	***
Less: Other Credit or relief allowed (if any)	***
Amount on which interest shall be calculated	***

*

Specified % of tax for calculation of interest under this section

Types of Assessee	**Due date of Instalment (P.Y.)**	Amount Payable
An eligible assessee in respect of an eligible business referred to in sec. 44AD or 44ADA	On or before March 15	100% of advance tax liability
In case of other assessee	On or before June 15	Not less than 15% of tax. [Note 1]
	On or before September 15	Not less than 45% of tax as reduced by the amount paid in the earlier installment [Note 2]
	On or before December 15	Not less than 75% of tax as reduced by the amount paid in the earlier installments
	On or before March 15	The whole amount of tax as reduced by the amount paid in the earlier installments

Taxpoint

1. Where an assessee has paid 12% or more of tax as advance tax on or before June 15, then no interest u/s 234C is payable.
2. Where an assessee has paid 36% or more of tax as advance tax on or before September 15, then no interest u/s 234C is payable.

Rate of interest: Simple interest @ 1% per month or part thereof

Period: 3 months (1 month for last instalment)

Other Points

No interest will be levied in respect of any shortfall in the payment of advance tax due on the returned income, if -

a) The shortfall is on account of under-estimation or failure to estimate the amount of:

i. capital gains; or
ii. income of the nature referred to in section 2(24)(ix) [i.e. lottery, cross-word, etc.];
iii. income under the head "Profits and gains of business or profession" in cases where the income accrues or arises under the said head for the first time; or
iv. dividend [excluding dividend u/s 2(22)(e)]

b) The assessee has paid the whole of the amount of tax payable in respect of such income as part of the remaining installment(s) of advance tax which were due or where no installment is due, by March 31 of the previous year.

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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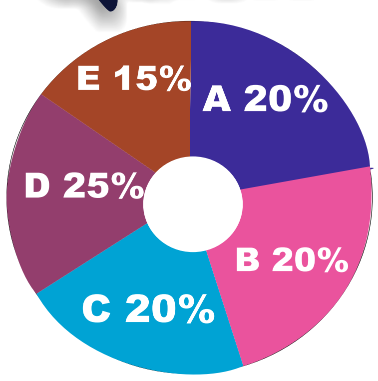
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business Comminations
& Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **25%**
E Government Accounting in India **15%**

Learning Objectives:

After studying the present section of Corporate Financial Reporting you will be able to:

- Learn how to highlight the achievements of a company to its investors, creditors, bankers, public, employees, regulatory bodies and Government on a periodic basis
- To convey future based strategic roadmap for the company.

Financial reporting of business combination and related transactions

Let us discuss the reporting requirements and applicable Ind ASs for the following transactions:

1. H Ltd. acquires 15% shares of S Ltd.
In individual financial statements of H Ltd. non-current financial asset as Investment will be recognised applying Ind AS 109 Financial Instruments.

2. H Ltd. acquires 25% shares of S Ltd.
Here H Ltd. is investor having significant influence over S Ltd., its associate. H Ltd. has to prepare both consolidated and separate financial statements.
(a) In Separate Financial Statements of H Ltd. as per Ind AS 27 non-current financial assets as Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109
(b) In consolidated financial statements of H Ltd. non-current financial asset as Investment will be recognised under Equity method using Ind AS 28 Investments in Associates and Joint Ventures.

3. H Ltd. acquires 35% shares of S Ltd. with joint control of S Ltd.
Here H Ltd. is investor having joint control over S Ltd., its joint venture. H Ltd. has to prepare both consolidated and separate financial statements.
(a) In Separate Financial Statements of H Ltd. as per Ind AS 27 non-current financial assets as Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109.
(b) In consolidated financial statements of H Ltd. non-current financial asset as Investment will be recognised under Equity method using Ind AS 28 Investments in Associates and Joint Ventures.

4. H Ltd. acquires 75% shares of S Ltd. acquiring control of S Ltd.
H Ltd. becomes a parent having control over S Ltd., its subsidiary.
(a) In Separate Financial Statements of H Ltd. as per Ind AS 27 non-current financial assets as Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109 and added to the investment for previously held interest.
(b) Consolidated financial statements will be prepared by H Ltd. for the group of the parent and subsidiary recognising identifiable assets and liabilities of S Ltd. at fair value, non-controlling interest and Goodwill or Gain on bargain purchase as per Ind AS 103 Business Combination and Ind AS 110 Consolidated Financial Statements.

5. H Ltd. acquires 35% shares of S Ltd. in addition to previously held 25% shares of S Ltd.
H Ltd. was already holder of 25% of shares of S Ltd, and with further acquisition of 35% shares it acquires control over S Ltd., its subsidiary. H Ltd. has to prepare both consolidated and separate financial statements.
(a) In Separate Financial Statements of H Ltd. as per Ind AS 27 non-current financial assets as Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109 and added to the investment for previously held interest.
(b) Consolidated financial statements will be prepared by H Ltd. for the group of the parent and subsidiary recognising identifiable assets and liabilities of S Ltd. at fair value, non-controlling interest and Goodwill or Gain on bargain purchase as per Ind AS 103 Business Combination and Ind AS 110 Consolidated Financial Statements.
The previously held interest will be cancelled at fair value and any Other Comprehensive Income for such previously held interest and any profit/loss on cancellation will be transferred to Statement of Profit and Loss.

6. H Ltd. acquires 25% shares of S Ltd. in addition to previously held 60% shares of S Ltd.
H Ltd. was already holder of 60% of shares of S Ltd, and parent of S Ltd., its subsidiary. With further acquisition of 25% shares H Ltd. increases its control over S Ltd. and the non-controlling interest is reduced. It is considered an equity transaction with owners in the capacity as owners. H Ltd. will continue to prepare both consolidated financial statements with changes in controlling interest and non-controlling interest and separate financial statements with changes in the investment in subsidiary.
(a) In Separate Financial Statements of H Ltd. as per Ind AS 27 non-current financial assets as Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109 and added to the investment for previously held interest.
(b) Consolidated financial statements will be continued to be prepared by H Ltd. for the group of the parent and subsidiary as per Ind AS 110 Consolidated Financial Statements. Non-controlling interest will be debited by the proportionate carrying amount and the fair value of the consideration will be credited. The difference between the debit and credit will be transferred to other equity.

7. H Ltd. sells 25% shares of S Ltd. from its holding of 90% shares in S Ltd.
H Ltd. was already holder of 90% of shares of S Ltd, and parent of S Ltd., its subsidiary. On sale of 25% shares of S Ltd. H Ltd.'s holding is reduced but control over S Ltd. is not lost and the non-controlling interest is increased. It is considered an equity transaction with owners in the capacity as owners. H Ltd. will continue to prepare both consolidated financial statements with changes in controlling interest and non-controlling interest and separate financial statements with changes in the investment in

subsidiary.

(a) In Separate Financial Statements of H Ltd. as per Ind AS 27 reduction of Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109 and subtracted from the investment for previously held interest.

(b) Consolidated financial statements will be continued to be prepared by H Ltd. for the group of the parent and subsidiary as per Ind AS 110 Consolidated Financial Statements. Non-controlling interest will be credited by the proportionate carrying amount and the fair value of the consideration will be debited. The difference between the debit and credit will be transferred to other equity.

8. H Ltd. acquires S Ltd., a 100% subsidiary.
H Ltd. becomes the merged entity and S Ltd. ceases to exist. It is a business combination under common control as per Ind AS 103 Annexure C, as the combining entities are ultimately controlled by the same party or parties both before and after the business combination. The pooling of interest method of accounting will be applied. The assets and liabilities of the combining entities will be reflected at their carrying amounts in the individual financial statements of H Ltd. No adjustments will be made to reflect fair values, or recognise any new assets or liabilities.
Consolidated and separate financial statements will no more be prepared by H Ltd.

9. H Ltd. acquires S Ltd., which was its 75% subsidiary.
H Ltd. becomes the merged entity and S Ltd. ceases to exist. It is a business combination under common control as per Ind AS 103 Annexure C, as the combining entities are ultimately controlled by the same party or parties both before and after the business combination. The pooling of interest method of accounting will be applied. The assets and liabilities of the combining entities will be reflected at their carrying amounts in the individual financial statements of H Ltd. No adjustments will be made to reflect fair values, or recognise any new assets or liabilities.
Consolidated and separate financial statements will no more be prepared by H Ltd.

10. H Ltd. and its subsidiary S Ltd. merged/amalgamated into G Ltd.
G Ltd. becomes the merged entity. H Ltd. and S Ltd. both cease to exist. It is a business combination under common control as per Ind AS 103 Annexure C, as the combining entities are ultimately controlled by the same party or parties both before and after the business combination. The pooling of interest method of accounting will be applied. The assets and liabilities of the combining entities will be reflected at their carrying amounts in the individual financial statements of H Ltd. No adjustments will be made to reflect fair values, or recognise any new assets or liabilities.
No consolidated and separate financial statements will be prepared either by H Ltd. or by G Ltd.

11. H Ltd. externally reconstructed as G Ltd.
G Ltd. becomes the merged entity. H Ltd. ceases to exist. It is a business combination under common control as per Ind AS 103 Annexure C, as the combined entity is ultimately controlled by the same party or parties both before and after the business combination. The pooling of interest method of accounting will be applied. The assets and liabilities of H Ltd. will be reflected at their carrying amounts in the individual financial statements of G Ltd. No adjustments will be made to reflect fair values, or recognise any new assets or liabilities.
No consolidated and separate financial statements will be prepared by G Ltd.

12. H Ltd. and G Ltd. amalgamated into M Ltd., where control was acquired by the holders of H Ltd. shares.
M Ltd. becomes the merged entity. H Ltd. and G Ltd. cease to exist. It is a business combination by reverse acquisition as per Ind AS 103 Business Combination, as the combined entity is ultimately not controlled by the legal acquirer but by one of the legal acquirees, H Ltd. For accounting purpose H Ltd. will be considered as acquirer.
In the individual financial statements of M Ltd. assets and liabilities of H Ltd. will be recognised at carrying amount and identified assets and liabilities of G Ltd. will be recognised at fair value.
No consolidated and separate financial statements will be prepared by M Ltd.

13. M Ltd. acquires 100% shares of N Ltd. and in the group M Ltd. maintains 60% holding after acquisition. (It happens, for instance, when M Ltd. had 600000 shares of its own and issued 400000 shares to holders of N Ltd. for consideration)
It is a business combination under Ind AS 103. M Ltd. is both legal and accounting acquirer. M Ltd. becomes a parent having control over N Ltd., its subsidiary.

(a) In Separate Financial Statements of M Ltd. as per Ind AS 27 non-current financial assets as Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109 Financial Instruments.

(b) Consolidated financial statements will be prepared by M Ltd. for the group of the parent and subsidiary recognising identifiable assets and liabilities of N Ltd. at fair value, non-controlling interest and Goodwill or Gain on bargain purchase as per Ind AS 103 Business Combination and Ind AS 110 Consolidated Financial Statements.

14. M Ltd. acquires 100% shares of N Ltd. and in the group M Ltd. maintains only 40% holding after acquisition. (It happens, for instance, when M Ltd. had 400000 shares of its own and issued 600000 shares to holders of N Ltd. for consideration)
It is a business combination by reverse acquisition as per Ind AS 103. M Ltd. is legal acquirer. M Ltd. becomes a legal parent and N Ltd. its legal subsidiary. But N Ltd. having effective control with 60% share in the group is the accounting acquirer.

(a) In Separate Financial Statements of M Ltd. as per Ind AS 27 non-current financial assets as Investment will be recognised (i) at cost, or (ii) in accordance with Ind AS 109 Financial Instruments.

(b) Consolidated financial statements will be prepared by M Ltd. (legal parent) for the group of the parent and subsidiary recognising identifiable assets and liabilities of M Ltd. (the accounting acquiree) at fair value, non-controlling interest and Goodwill or Gain on bargain purchase as per Ind AS 103 Business Combination and Ind AS 110 Consolidated Financial Statements.

GROUP: iv, PAPER: 18

INDIRECT TAX
LAWS & PRACTICE (ITP)

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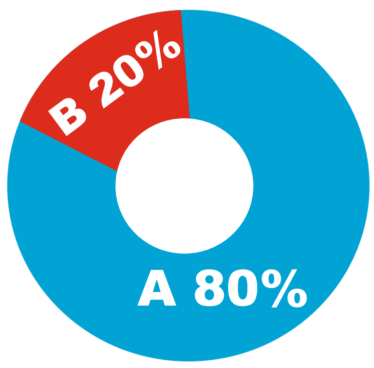
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- Customs duty of baggage
- Use of inland container
- Treatment of smuggled goods
- Issue of show cause notice
- Impose of penalty
- Meaning of few terms
- Compounding of offences
- Benefit of exemption notification
- Seizure and confiscation of imported goods

INDIRECT TAX

Choose the correct option from the followings –

1. Rate of Duty of Baggage is
(a) @ 20% plus Social Welfare Surcharge @ 10% on BCD
(b) @ 25% plus Social Welfare Surcharge @ 10% on BCD
(c) @ 30% plus Social Welfare Surcharge @ 10% on BCD
(d) @ 35% plus Social Welfare Surcharge @ 10% on BCD

2. As per Section 151 of the Customs Act, 1962 which of the following officers of other department are not empowered to assist officers of the Customs
(a) Officers of the Central excise department
(b) Officers of the Army
(c) Officers of the Navy
(d) Officers of the Police

3. Inland Container depots are used for
(a) Unloading of imported goods
(b) Loading of exported goods
(c) Transfer goods to Customs Godown
(d) Unloading of imported goods and loading of exported goods

4. If the smuggled gold biscuits converted into jewellery then
(a) A special rate of customs duty will be levied
(b) To see whether tax or other dues payable as per other law in force
(c) Commissioner of customs will decide the confiscation for conversion into different forms
(d) The entire value of jewellery is liable for confiscation

5. The time limit for issuing Show Cause Notice before confiscating goods to the owner
(a) Is three days
(b) Is seven days
(c) Is fifteen days
(d) No limit is specified

6. In case of attempt to improperly export goods i.e. without the knowledge of customs officers
(a) Additional rate of customs duty will be imposed
(b) Penalty can be imposed
(c) Exported goods may be taken back if not reached the destination
(d) Show cause notice will be issued before imposing any fine

7. As per Section 112 of the Customs act,1962 penalties or improper import of prohibited goods is
(a) Value of the prohibited goods or Rs 5000/- whichever is higher
(b) Value of the prohibited goods or Rs 7000/- whichever is higher
(c) Value of the prohibited goods or Rs 10000/- whichever is higher
(d) Value of the prohibited goods or Rs 12000/- whichever is higher

8. As per section 117 of the Customs act,1962 if no penalty has been prescribed for contravenes, the penalty can be levied

(a) Rs 50000/-
(b) Rs 75000/-
(c) Rs 100000/-
(d) Rs 125000/-

9. As per section 125 of the Customs Act, 1962 the term 'Redemption Fine' means
(a) Right to auction of the confiscated goods
(b) Option to pay fine in lieu of confiscation
(c) Goods first confiscated and then pay duty on that
(d) Penalty and fine imposed on confiscated goods after adjudication by assistant Commissioner

10. Option to pay fine as directed by the adjudication authority will be void if fine not paid within
(a) 30 days
(b) 60 days
(c) 90 days
(d) 120 days

11. In which of the following offence imprisonment will be up to three years not seven Years
(a) Market value of the offending goods exceeds Rs 75 lakhs
(b) Value of evasion of duty exceeds Rs 30 lakhs
(c) Offence pertains to prohibited goods notified by central Government of India
(d) Value of fraudulent availment of drawback / exemption exceeds Rs 30 lakhs

12. As per the Customs Act which one of the following will not be called 'Vexation Action' of department officers
(a) An officer of customs facilitated to do fraudulent export
(b) Search of person without reason to believe that they are guilty
(c) Arrest of person without reason to believe that they are guilty
(d) Impose penalty without informing Commissioner / additional Commissioner of Customs

13. For compounding of offences the application can be made before the
(a) Deputy Commissioner of customs having jurisdiction over the place of applicant
(b) Commissioner of customs having jurisdiction over the place of applicant
(c) Chief Commissioner of customs having jurisdiction over the place of applicant
(d) First Class Magistrate having jurisdiction over the place of applicant

14. Customs (Import Of Goods At Concessional Rate Of Duty), Rules 2017 come into force on the
(a) 1st day of May,2017
(b) 1^{st} day of June, 2017
(c) 1^{st} day of July, 2017
(d) 1^{st} day of August, 2017

15. As per Customs (Import Of Goods At Concessional Rate Of Duty), Rules 2017 ;Output Service' means
(a) Supply of service with the use of the imported goods
(b) Service provided by Customs Department related for documentation
(c) Facilities like providing of customs godown, transportation etc for imported goods
(d) Supply of service related to the fixation of import duties and release of imported goods

16. Which of the following information is not required to avail benefit of Exemption notification as per Rule 4 of Customs (Import Of Goods At Concessional Rate Of Duty), Rules 2017
(a) The name and address of the manufacturer
(b) The goods produced at his manufacturing facility
(c) The nature and description of imported goods used in the manufacturer of goods or providing an output service
(d) The details of home consumption of the imported goods

17. The importer who has availed benefit of an exemption under Rule 7 may re-export unutilized or defective imported goods within
(a) Two months
(b) Four months
(c) Six months
(d) Nine months

18. As per Section 102 of the Customs Act the person require to be searched by the customs official require to be taken before
(a) Local police station

(b) Gazetted officer of customs or the magistrate
(c) Deputy commissioner of the customs
(d) Commissioner of the customs

19. Goods seized by Customs Officials to be returned if no show cause Notice issued within
(a) One month
(b) Two month
(c) Three month
(d) Six month

20. When goods are confiscated as per Customs Act,1962, then
(a) Goods can be released by paying penalty by the owner
(b) Owner can make an appeal before Commissioner of Customs for release of confiscated goods
(c) Confiscated goods become property of the Government
(d) Auction can be arranged for confiscated goods to recover required duty and penalty

ANSWERS

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

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

CMA S S Sonthalia
Practicing Cost Accountant
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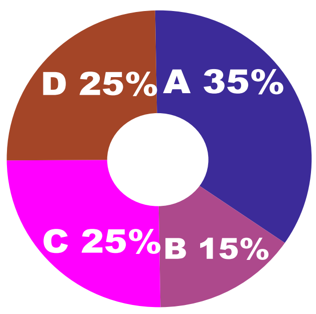
Your Preparation Quick Takes



Syllabus Structure

A Cost Audit **35%**
B Management Audit **15%**
C Internal Audit, Operational Audit and other related issues **25%**
D Case Study on Performance Analysis **25%**

Learning Objectives:

- To verify the correctness of the cost accounting records.
- To find out whether the principles of cost accountancy have been fully and correctly applied in maintaining cost records.
- To search for the deficiencies in the cost record system of the company.
- To attain efficiency in cost accounting systems and procedures

Cost Management – A Life Line for Corporate Sustenability

The Cost and Management accountants whether in practice or in employment play a very vital role in present emerging economy. Number of Cost and Management Accountants are placed at a very senior position as a Director Finance as well as CEO in both public and private sector companies and help them in compliance of provisions of various laws and deployment of innovative tools which are now become essential for remaining competitive in emerging economy.

A Cost & Management Accountant has been recognized as an expert, under section 2(38) of the Companies Act, 2013, and provide various services to the industries both in manufacturing and service sector. He is doing Internal Audit, Cost Audit under Companies Act, 2013 and GST Audit under GST Act, 2017 and can also act as an Insolvency Professional and Valuer.

Cost Management is one of the activities for a member in employment. Not long ago, companies thought cost management was about reducing expenses. The notion has now evolved and it is viewed as a way to manage costs while also driving growth. Cost management is *the* strategic initiative that is part of a larger transformation process and control of actual or forecast cost incurred by the business entity.

It is best applied by following various steps such as:

- Collection of Information about current and projected cost.
- Review the collected information to see whether cost can be reduced or avoided entirely.
- Report the result with management with recommended action.
- Setting of control to ensure that the changes imposed by management are adhered in the manner intended.
- Monitoring any changes imposed by management as result of this analysis to see how the alteration modified the cost profile of the business.

In short Cost Management encompasses a variety of data collection and its analysis to keep the business entity profitable over a period of time. Various tools employed for the purpose of cost management are:-

1. Capitalization on technology
2. Cost estimation & budgeting
3. Ratio Analysis
4. Activity based cost management
5. Time management & outsourcing
6. Updated market sense

1. **Capitalization on technology:**
   This is one of the methods that help in streamlining the business. Latest technology helps in getting quality of higher standard, less time consumption with higher productivity and keeps the employee count within the desirable range. All of this strongly reflects in the overall cost of the business.

2. **Cost estimation & budgeting:**
   This involves estimation of current and future cost with respect to each major activities / product or any new project. It also encompasses periodical budget estimation for a month, quarter or a year for each of the major activities. Further it requires collection of cost data and comparison of same with budget estimation to find variance if any, cause for the same and evaluating suitable strategy to ensure keeping the cost within the budgeted parameter.

3. **Ratio Analysis:**
   Ratio and analysis is also an important tool to identify the area requiring corrective action. Since raw material & consumable constitute major part of the total cost of any product, it is highly essential to monitor the behavior of their consumption and holding. This can be examined through applying the following ratios:-

   a) **Material Yield variance**- The material yield variance is the difference between the actual amount of material used and the standard amount expected to be used, multiplied by the standard cost of the materials. The formula is:
   (Actual unit usage - Standard unit usage) x Standard cost per unit = Material yield variance

b) **Inventory Turnover Ratio**- It shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period.

4. **Activity based cost management:**
It identifies the relationship between business activity and all the resources needed to conduct it by assigning the cost to each of these resources thus presenting the total expense of the entire activity. Steps Activity based cost management are:

- Identify the product or service to be studied;
- Determine all the resources and processes that are required to create the product or deliver the service, and their respective costs;
- Determine the "cost drivers" for each resource: the cost of labour as well as raw materials;
- Collect cost and other data, such as time taken, for each process and resource;
- Use the data to calculate the overall cost of the product.

Tracking and allocation of detailed cost to individual activity and procedure can be accomplished by deploying different method with various degree of accuracy. The more detailed the cost analysis is done, the data is analyzed at greater accuracy and helps in arriving at more realistic solution.

5. **Time management & outsourcing:**
The owner/ CEO of company is aware about the value of time for his business. It is very essential to make the employees understand the value of time and to be efficient to do more work in the same time span resulting in higher productivity. It is also relevant to examine and evaluate certain activities whether doing in house or outsourcing the same is more beneficial. Outsourcing is the one which helps employees on third party role especially when it is one time project. However, one should keep in mind that the outsourcing partners are of the same standard and do not hamper the quality of service.

6. **Updated market sense:**
It is very important to be updated with the trends in the market as doing business is the game of survival of the fittest. One has to be constantly being in touch with the vendors and see that the renewal of contracts keeps happening with the trend of price. This will help in negotiation at the best price available in the market rather than dragging on the same set price of long-term contracts.

Advantages of Cost Management

- It helps in controlling the product / project specific cost, in turn also the overall business cost.
- One can predict the future expenses and costs and accordingly work towards the expected revenues.
- Predefined costs can be maintained as records for the business.
- It helps in taking those actions that are necessary to assure that the resources and business operations aim at attaining the chalked objectives and goals.
- It helps in analysing the long term trends of the business.
- The actual cost incurred can be compared to the budgeted to see if any component of the business is spending more than expected.
- It helps in analysing the business positioning in terms of making an acquisition factoring the cost component involved.

Conclusion

Cost management is indeed one of the essential requisites for the success of any project or business for that matter. When one knows the scope for the cost that the business can bear, it becomes much easier to set the goals and accordingly work towards it.

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July 2021, Issue

YEARS OF CELEBRATING THE MAHATMA

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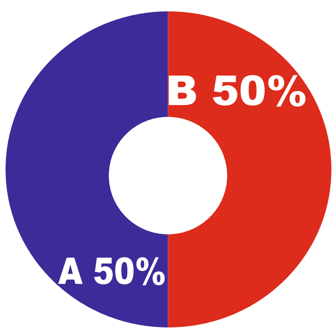
GROUP: iv, PAPER: 20

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

Value at Risk (VaR)

Value at Risk (VaR) is one of the popular methods of measuring financial risks. It indicates the possible minimum loss in a specified period and at a specified confidence level from a fall in the price of a security or exchange rate. VaR is also defined as the threshold value such that the probability of a portfolio making a market to a market loss over a specific time horizon exceeds this value.

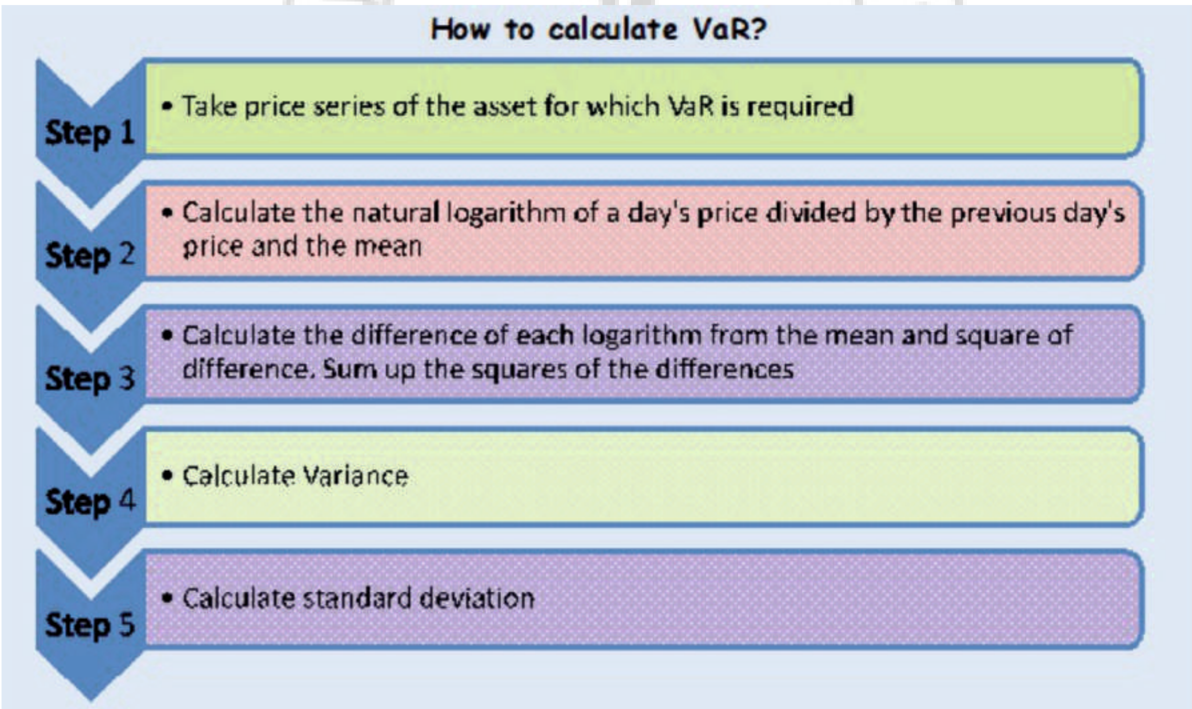
VaR is derived from a statistical formula based on volatility of the market. VaR uses past data to compute volatility. Volatility is the standard deviation from the mean of exchange rates (e.g. USD/INR) observed over a period. Volatility assumes a normal distribution curve and the number of standard deviations from the mean which denotes the probability of reaching target level. The volatility multiplied by the number of standard deviations required for a given confidence level results in the VaR.

VaR at 99% confidence level implies 1% probability of the stated loss. The loss is generally stated in absolute amount for a given transaction value or value of an investment portfolio.

For example, a bank having 1 day VaR of Rs. 10 crore with 99% confidence level it means that there is 0.01 probability that the portfolio may face a reduction in value by more than Rs.10 crore over a specific time period under the normal conditions. It does not estimate losses in abnormal situations.

A loss which exceeds VaR threshold is known as =VaR break'. VaR has applications in financial risk management, risk measurement, control and reporting. It can also be used in calculating regulatory capital. VaR essentially identifies the boundary between normal days and extreme occurrences. The probability level is specified as 1 minus probability of a VaR Break. Normally VaR parameters are 1 per cent and 5 per cent probabilities and 1 day and 2 week horizons. While VaR represents loss, a negative VaR would indicate that a portfolio has a high probability for making profits.

There are two types of VaR—one is applied primarily in risk management and the other in risk measurement. Further, VaR may be classified as— long-term VaR, marginal VaR, factor VaR, and shock VaR.



MCQs

Choose the correct option from amongst the four alternatives given:
(Each question carries 2 marks)

1. **A bank expects fall in price of a security if it sells it in the market. What is the risk that the bank is facing?**
   (A) Market risk
   (B) Operational risk
   (C) Asset liquidation risk
   (D) Market liquidity risk

2. **__________________refers to the uncertainty of market volumes in the future and the quantum of future income caused by the variations in the interest rates:**

(A) Market risk
(B) Physical risk
(C) Pooling risk
(D) Interest rate risk

3. **A transaction where financial securities are issued against cash flow generated from a pool of assets is called:**
(A) Securitisation
(B) Credit Default Swaps
(C) Credit Linked Notes
(D) Total Return Swaps

4. **The risk that arises due to worsening of credit quality is -**
(A) Intrinsic risk
(B) Credit spread risk
(C) Portfolio risk
(D) Counterparty risk

5. **1-Day VaR of a portfolio is Rs.5,00,000 with 95% confidence level. In a period of six months (125 working days) how many times the loss on the portfolio may exceed Rs.500,000?**
(A) 4 days
(B) 5 days
(C) 6 days
(D) 7 days

6. **A bank suffers loss due to adverse market movement of a security. The security was however held beyond the defeasance period. What is the type of risk that the bank has suffered?**
(A) Market risk
(B) Operational risk
(C) Market liquidation risk
(D) Ccredit risk

7. **VaR is not enough to assess market risk of a portfolio. Stress testing is desirable because-**
(A) It helps in calibrating VaR module
(B) It helps as an additional risk measure
(C) It helps in assessing risk due to abnormal movement of market parameters
(D) It is used as VaR measure is not accurate enough

8. **A $10 million 10-day VAR figure with 95% confidence means:**
(A) There is only a 5% chance that we will gain more than $10 million in 10 days.
(B) The VAR over the next day is $1 million with 95% confidence.
(C) The loss over the next 10 days is expected to be at most $10 million in 95% of the cases.
(D) The minimum loss over the next 10 days is expected to be at least $10 million in 95% of the cases.

9. **A bank reports a daily 95% VAR as $15 million. Assuming daily and 10-day returns follow a normal distribution, the 99% 10-day VAR is**
(A) $15m
(B) $47m
(C) $212m
(D) $67m

10. **Which of the following is true about stress testing?**
(A) $\bar{x}$ is used to evaluate the potential impact on portfolio values of unlikely, although plausible, events or movements in a set of financial variables.
(B) It is a risk management tool that directly compares predicted results to observed actual results. Predicted values are also compared with historical data.
(C) Both (A) and (B) above are true.
(D) None of the above are true.

Answers:

Question No	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Answer	(C)	(D)	(A)	(B)	(C)	(B)	(C)	(C)	(D)	(A)

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Dear Students,

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

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

Please put your opinions so that we can make your e-bulletin everything that you want it to be.

Send your Feedback to:
e-mail: studies.ebulletin@icmai.in
website: http://www.icmai.in

Updation of E-Mail Address/Mobile:

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

Message from

Directorate of Studies

Dear Students,

Passing the exam is a happy event. Congratulations on all that you have accomplished! There is no secret of success. It is the result of preparation, hard work and learning from failure. Well done! It is clear that the future holds great opportunities for you.

Those who could not pass, failing in an exam does not mean failing in life. All of us face failure at one time or another. Try to focus your attention on the importance of perseverance and mind it that dedication and determination plays the lead role in shaping a person's life.

We from the Directorate of studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through, Mock Test Papers (MTPs), Work Books, MCQs 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 link mentioned below :

https://icmai.in/studentswebsite

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

You can win!

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

GOOD LUCK

Be Prepared and Get Success;

विश्वविद्यालय अनुदान आयोग
University Grants Commission
(शिक्षा मंत्रालय, भारत सरकार)
(Ministry of Education, Govt. of India)

बहादुरशाह जफ़र मार्ग, नई दिल्ली-110002
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ज्ञान-विज्ञान विमुक्तये
डॉ. सुरेन्द्र सिंह
संयुक्त सचिव
Dr. Surender Singh
Joint Secretary

सत्यमेव जयते

D.O.No.9-35/2016 (CPP-II) **March, 2021**

15 MAR 2021

Sub: To consider CA/CS/ICWA qualification equivalent to PG Degree for appearing in UGC-Net

Sir/ Madam,

UGC had received requests from the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India and the Institute of Cost Accountants of India to consider the qualification being awarded by them, i.e., Chartered Accountant (CA), Company Secretary (CS) and Cost and Works Accountants (ICWA) respectively, equivalent to Post Graduation Degree.

To consider this, a Committee was constituted by the UGC. The Commission, in its 550th meeting held on 18th February, 2021 considered the recommendation of the Expert Committee and resolved as under:

"CA/CS/ICWA qualification be considered equivalent to PG Degree."

This is for your kind information.

With kind regards,

Yours sincerely,

Surender Singh

(Dr. Surender Singh)
Joint Secretary

The President
The Institute of Cost Accountants of India
3, Institutional Area
Lodhi Road
New Delhi- 110 003

Few Snapshots

Dignitaries sharing the screen with Shri Arjun Ram Meghwal Hon'ble Union Minister of State for Parliamentary Affairs and Heavy Industries & Public Enterprises during National Corporate Laws Summit. Left to Right CMA Neeraj D. Joshi, CCM; CMA Mahesh Shah, Past President; Shri Debarshi Duttagupta, MD, East India Pharmaceuticals Works Limited; Shri Arjun Ram Meghwal, Hon'ble Union Minister, CMA Dr. Ashish P. Thatte, Chairman, Corporate Laws Committee; CMA Biswarup Basu, President; CMA Chittaranjan Chattopadhyay, CCM; CMA Amal Kumar Das, Past President; CMA Vijender Sharma, CCM

Shri Arjun Ram Meghwal Hon'ble Union Minister of State for Parliamentary Affairs and Heavy Industries & Public Enterprises is giving his live online speech on occasion of inauguration of National Corporate Laws Summit.

CMA Biswarup Basu, President facilitating Shri Debarshi Duttagupta, MD, East India Pharmaceuticals Works Limited on the occasion of National Corporate Laws Summit organised at Kolkata on 26th February 2021. Sharing the dias is CMA Dr. Ashish P. Thatte, Chairman Corporate Laws Committee and CMA Neeraj D. Joshi, Central Council Member.

From Left to Right CMA Balwinder Singh, Immediate Past President and Council Member, Shri S.K. Kaushik, CAO (AR), Indian Railways, Shri Naresh Salecha, Member (Finance) Railway Board, CMA Biswarup Basu, President, CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President, CMA B.B. Goyal, Advisor ICWAI MARF, CMA J.K. Budhiraja, CEO ICWAI MARF, Ms. Tripti Guraha, Exeuctive Director, (S & E), Indian Railways, Sh. Abhishek Kumar, CPM (AR), Indian Railways

Presentation of Final Report on Performance Costing System in Indian Railways at Rail Bhawan, New Delhi on 19th February, 2021 by CMA Biswarup Basu, President, ICAI to Shri Naresh Salecha, Member (Finance), Railway Board.

From Left to Right CMA Balwinder Singh, Immediate Past President and Council Member, Shri S.K. Kaushik, CAO (AR), Indian Railways, Shri Naresh Salecha, Member (Finance) Railway Board, CMA Biswarup Basu, President, CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President, CMA B.B. Goyal, Advisor ICWAI MARF, CMA J.K. Budhiraja, CEO ICWAI MARF.

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