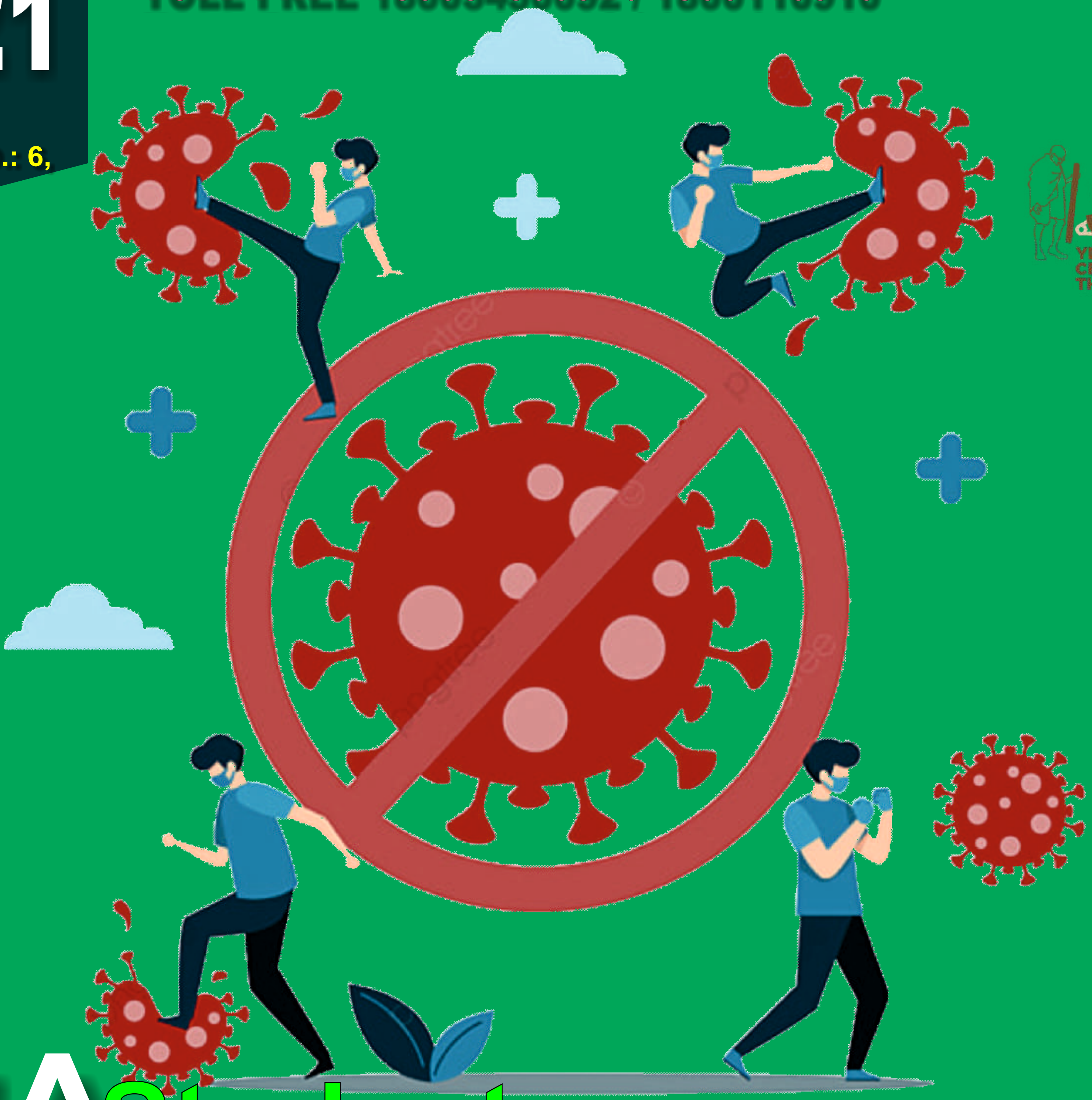
2021

June

VOL: 6, NO.: 6,

TOLL FREE 18003450092 / 1800110910



150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

FOLLOW US ON

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

www.icmai.in

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016

Ph: 091-33-2252 1031/34/35/1602/1492

Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

Ph: 091-11-24666100

Behind every successful business decision, there is always a CMA

Vol: 6, No.: 6.
June 2021, Issue

CONTENTS

Vol: 6, No.: 6.
June 2021, Issue

150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

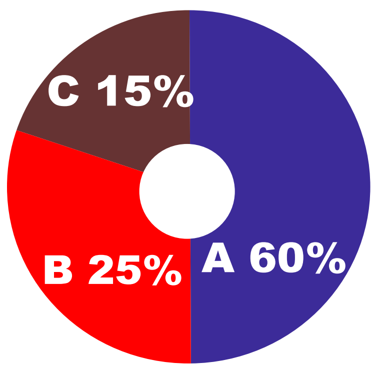
YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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

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

Composition of Board of Directors

Board of directors is individual, and is defined as a person occupying the position of directory, by whatever name called. Director collective are called as board of director. Any persons who control the management of the company will be deemed as director, through his designation can be different.

Maximum no. of Directors – in case of public limited company is 15. However any company may increase number of directors, with the permission of central court. There is no maximum specified for private company.

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

No. of directors above 15 requires approval by special resolution of shareholders.
One director to be resident individual.

At least one women director in case of listed company.

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

ROTATIONAL AND NON-ROTATIONAL DIRECTORS

At least 2/3rd shall be eligible to retire by rotation in every AGM.

Out of 2/3^{rd,} 1/3rd must retire in every AGM.

(Directors appointed by CG, BIFR, FI/Banks shall not be taken in to account for calculating the number of rotational directors)
Listed companies shall have 50% of the Board's strength as independent director if the chairman is executive and 1/3rd if chairman is non-executive.

Tenure of non-rotational director or full time director shall not be for more than 5 yrs.

KMP- Key managerial personnel in relation to a company means-

(i) the Chief executive officer or the managing director or manager.
(ii) the company secretary
(iii) the whole-time director
(iv) the Chief financial officer
(v) such other officer as may be prescribed

NATURE OF COMPANY MANAGEMENT

Shareholders are the owners of the company. They can anytime decide to run themselves or may like persons to act on their behalf for management of the company and highest level of such inclusion of outside person is director, who will be member of the board of director.

Management powers to be exercised by:	Type of Powers	Reference

Shareholders	Powers not given/delegated to the Board of Directors.	Section 180 of the Companies Act, 2013 and Articles of Association of the company.
Board of Directors	All powers of decision making about the company unless reserved for the shareholders.	Section 179 of the Companies Act, 2013.
Chairman	Executive/ Non- Executive functions of the company. Chairing the Company meetings.	Section 104 of the Companies Act, 2013.
C.M.D	Exercises both Chairman and Managing Director's Power.	
Managing Director -Should be of 21-70 years -is an undischarged insolvent -has not suspended payment to its creditors -has not been convicted of any offence for a period of more than 6 months.	Has substantial powers of the management of the company. Works under the supervision and control of the Board of Directors.	Section 196 of the Companies Act, 2013.
Whole Time Director/Functional Director	Full time employee of the company. Looks after specified functions of the company.	

Type of Directors	Appointing Authority	Situation of appointment	Tenure of Office
First Directors	Articles of Association	At the time of registration	Upto first AGM
Normal Directors	Shareholders in Annual General Meeting.	Normal	To retire on the basis of seniority
Additional Directors	Board of Directors	In between two AGMs	Till the next AGM or the last date in which the AGM should have been held whichever is earlier.
Alternate Directors	Board Of Directors	When the original Director is out of India for more than 3 months	Till the return of the original Director.
Directors appointed by Central Government	Central Government	Inspection and Investigation Oppression and Mismanagement	As per order
Director appointed by B.I.F.R	B.I.F.R (Board of Industrial and Financial Reconstitution)		As per BIFR order.
Director appointed / nominated by Financial Institute/Government	Nominated by Financial Institute (Appointed by shareholders at AGM)	Company taken loan from the institution, equity investment in the company.	As per FI/ Bank

Independent directors (Section 149)	For all listed companies at AGM.	Paid up capital 10cr/turnover 100cr/outstanding loan 50cr.	5 consecutive terms but can be re-appointed by passing a special resolution.
Directors appointed by small shareholders.	Small shareholder who holds shares of nominal value of not more than twenty thousand rupees.	In AGM. Any listed company may or shall in case of notice by 1000 small shareholders(or 1/1oth of such category of shareholders having holding of face value of rs. 20000)	Up to 3 years. Shall be rotational. Considered to be independent.
Shadow Directors	Legally not a director.	Persons who control the affairs or control the majority of directors.	

Appointing Retiring Director

The nomination for appointment of a Director who retires in an AGM and is eligible for reappointment automatically comes up in the said meeting unless a resolution to the effect that he will not be appointed or someone else will be appointed in his place is moved.

Appointment Of a person as a director for the first time.

Apart from the above provision Under Section 160 of the Companies Act, 2013 a person who is not a retiring director can also be eligible for appointment as a director of a company provided he deposits his candidature in writing, himself or through some other member of the company at least 14 days before the meeting along with a fee or ` 1 lakh which shall be refunded if the candidate gets minimum 25% of the votes casted.

Vacation of office of directors: (Section 167)

The office of a director shall become vacant if he is disqualified by an order of the court or Tribunal or by personal capacity.

Powers and Duties of the Board (Section 179 & 166)

The Board of directors shall exercise the following powers subject to the resolutions passed at the meeting.

1. to authorise buy-back of securities under section 68.
2. to issue securities, including securities (in or outside India)
3. to borrow monies.
4. to invest the funds of the company.
5. to grant loans or give guarantee or provide securities in respect of loans.
6. to approve financial statements and the Board's report.
7. to diversify the business of the company.
8. to approve amalgamation, merger and reconstitution.

9.to take over a company or acquire a controlling or substantial stake in another company.

position & status of directors

- Organs of the Company
- Decision makers
- Authorized to do everything bonafide the company unless prohibited by the Act/Articles.
- Individual director not competent to act without authority of the Board and shall be personally liable
- Directors are trustees to the shareholders, custodian of the asset and responsible for running of the business
- Prudentiality of directors' decision shall not be normally questioned
- Committee of Directors
- Directors may propose anything for effective management of the company, exploit their knowledge and experience for betterment of the company

- Directors to act bonafide the company even if nominated by a group of shareholders whose interest is effected

Restrictions on Powers of Board and borrowing powers

The following power cannot be exercised by Board unless specifically authorised by the shareholders in a meeting through Special resolution.

a) Sell, lease or dispose of substantial part of business, the value of which is 20% of the Net worth or generates 20% of the income. of the company

b) Investment of funds received as compensation of merger/amalgamation, other than in trust securities.

c) borrow money exceeding aggregate of its paid up share capital and free reverses, other than temporary loans. Loans taken for capital expenditure will include borrowing.

d) give or extent time for repayment of loan recoverable from directors.

The resolution of the shareholders shall mention the maximum limit and condition, if any, in each of the above situations.

The following are the duties of Board:

1. A director of a company should act in accordance with the articles of the company.
2. A director should act in act in good faith in order to promote the objects of the company for the benefit of its members, its employees, its shareholders, its community for the protection of the environment and in the best interest of the company.
3. A director shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
4. A director shall not involve in a situation in which he is directly or indirectly interested and which conflicts with the interest of the company.
5. A director shall not achieve any undue advantage or gain either by himself or through his relatives.
6. A director shall not assign his office any assignment so made will be void.

Functioning of the Board :

1. Chairman of the Board chairs the meetings of the Board. If the regular chairman is not present and Articles of association permit, a director may be appointed as a chairman of the meeting.
2. Quorum: minimum number of directors to be present to make the meeting valid. If the quorum is not present the meeting shall be automatically adjourned to same place, time and venue on the same day next week.
3. Each director has one vote. In case of a tie the Chairman will have a casting vote subject to the provisions in the Articles of Association.
4. Interested director shall not vote. (Interest means personal interest) (disclosure of interest under section 184 is compulsory at the time of joining)
5. All decisions shall be simple majority decisions. However unanimous decision shall be taken in case of ;

   (a) Inter corporate investments above certain limit.
   (b) Appointing any person as an MD of the company if he is already an MD or a manager of one and not more than one company.

6. **Leave of absence:** If a director is absent from 3 consecutive Board meetings without taking leave of absence he will be disqualified from remaining a director of the company.

7. **Voluntary adjournment**; The Board can voluntarily adjourn its meeting. In case of automatic adjournment the meeting stands adjourned to next week same day, same time and same venue unless another venue is fixed.

8. Adjournment of meeting and deferment of consideration / decision of an item.

9. One Board meeting in each quarter is a must. No limit for maximum number of meetings. There shall not be a gap of 120 days between two meetings.

10. Minimum 7 days notice of the Board meeting must be given to all directors staying even outside India.

11. Preponement and postponement of meetings can be done withy proper authority of the company.

Board meeting through Video Conference/Virtual Board Meeting

Conducting Board Meeting through Video Conference has been one of the key highlights of Companies Act, 2013. With Information Technology becoming more readily accessible to a large section of the corporate sector in India, conducting all kinds of meeting through Videos conference is now a viable option for corporate houses. Realizing this fact and keeping in pace with the new technology, the Ministry of Corporate Affairs gave a major push under Companies Act, 2013 to conduct Board Meetings through Video conference. Directors of the company **may** participate in a Board meeting either in person or through videos conference or other audio visual means provided that the company follows the procedure mentioned below.

1. The company should ensure effective videos connection and make necessary arrangements to avoid failures.

i. The Chairperson of the meeting and the Company secretary shall take due and reasonable care to safeguard the integrity of the meeting ensuring sufficient security and identification procedure.

ii. to store for safe keeping and marking the tape recording(s) atleast before the time of completion of audit of that particular year.

iii. to ensure no person other than the concerned director are attending or have access to the proceedings of the meeting.

iv. to ensure that participants attending the meeting through video conferencing are able to hear and see the other participants clearly during the course of the meeting.

The notice of the meeting shall inform the directors regarding the option available to them to participate through videos conferencing mode and also provide all necessary information for enabling them to participate through such mode.
A director intending to participate through video conference mode shall communicate his intention to the Chairperson or the Company Secretary of the company by giving prior intimation sufficiently in advance.

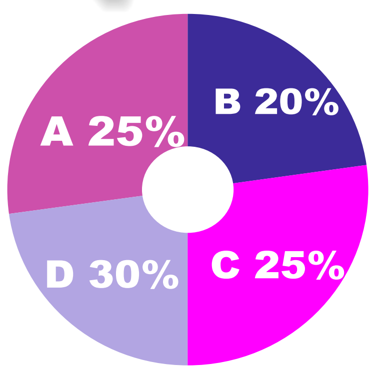
Vol: 6, No.: 6.
June 2021, Issue

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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

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

- **A Few Other Types of Leasing Agreements**

Sale and Lease Back Agreement
Under this type of lease agreement, the lessee first purchases the equipment of his choice and then sells it to the lessor firm. The lessor in turn leases out the asset to the same lessee. The main advantage of this method is that the lessee can be rest assured about the quality of the asset and can convert the sale into a lease arrangement after he has the possession of the asset. He can exercise this option even in the case of an existing asset used by him for some time to get a lumpsum cash released from the asset which he can put into some alternative use. The lessor gets the tax benefit for depreciation. This method of financing an asset is also popular when the lessee is in liquidity problems, he can sell the asset to a leasing company and take it back on lease. The fund released therefrom will improve the liquidity position of the lessee and he will continue to use the asset without parting with it.

Sales Aid Leasing
Under this type of leasing arrangement, *a leasing company* enters into an agreement with the seller, usually manufacturer of the equipment, to promote and market the latter's product through its leasing operations. The leasing company will also get commission for such sales, which add up to its profits. For the seller, adding a lease option with a reputable finance partner to a product can significantly enhance sales and overcome customers' budget restrictions.

Specialized Service Lease:
In this type of agreement, the lessor provides specialized personal services in addition to providing the use of the asset.

Cross Border Lease
Cross-border leasing is a leasing arrangement where lessor and lessee are situated in different countries. Cross-border leasing can be considered as an alternative to equipment loans to foreign buyers, the only difference being the documentation, down payments, payment streams, and lease-end options as offered under Equipment Loans. Operating leases may be feasible for exports of large equipment with a long economic life relative to the lease term.

This type of arrangement is extremely useful when the tax rates are relatively high in the lessor's country along with liberal depreciation rules and either very flexible or very formalistic rules governing tax ownership. The tax savings of the lessor are passed through to the lessee as a lower cost of finance.

- **Alternative Lease Rental Structures**

Against any lease, the lease rents are payable on periodical basis over the specified lease period. The lease rentals should be structured in such a way that it will create a win-win opportunity for both lessor and lessee. In a competitive environment, the lessee will look for a lease finance where the lease rentals are lowest while the lessor must recover his principal amount invested as well as the desired return on investment to ensure sustainability.

Following are some popular lease rent structures used by businesses:

a) *Equal Periodic Plan* - In this plan, the periodic lease rent payable is divided into equal amounts by applying the annuity factor for the specified period of lease at a predetermined interest rate taken as the discount rate.
b) *Stepped-up Plan* - Under this plan, the periodic lease rent will go on increasing with a specified rate of increase.
c) *Stepped-down Plan* - Under this plan, the periodic lease rent will go on decreasing with a specified rate of decrease.
d) *Balloon Payment Plan* - In this plan, the periodic lease rent payable in the initial period would be less, fixed up in such a way to meet the nominal amount comparative to the cost of investment, the rest of the amount is payable in lump sum during the ending periods of the lease.
e) *Deferred Payment Plan* - Under this plan, the lease rent need not be paid for the initial specified period. However, the same is payable in the subsequent periods, in equal annual amounts which will recover the cost of financing for the deferred payment period also.

Illustration 5: Alternative structures of lease rental

(a) Equal Periodic Plan

Majestic Transport needs a machine for which it is considering the following two options:
(i) Buy the asset for Rs.6,00,000 by borrowing the amount @12% interest and repaying the same together with interest in 4 equal annual instalments.
(ii) Acquiring the asset on lease with a payment of annual lease rentals for 4 years.
The firm follows straight line method of depreciation and is under the income tax bracket of 30%. Life of the asset is 4 years.
If Majestic Transport is willing to opt for equal annual plan for lease rental, what will be the lease rental payable?

Solution:
Applicable discount rate = 12(1-0.3) = 8.4% p.a.
<u>Buy Option</u>
Annual instalment = 600000 ÷ PVIFA (12%, 4) = 600000 ÷ 3.037 = Rs.197564
Calculation of interest tax shield

Op. outstanding	Interest @12%	Instalment	Principal	Cl. Outstanding	Tax savings	PVIF @ 8.4%	PV of tax savings
600000	72000	197564	125564	474436	21600	0.9225	19926
474436	56932	197564	140632	333804	17077	0.8510	14533
333804	40056	197564	157508	176296	12017	0.7851	9435
176296	21268	197564	176296	0	6380	0.7242	4620
Total							48514

Calculation of depreciation tax shield

Depreciation	Tax savings	PVIF @ 8.4%	PV of tax savings
150000	45000	0.9225	41513
150000	45000	0.8510	38295
150000	45000	0.7851	35330
150000	45000	0.7242	32589
			147727

Present value of cash flow under buy option

Particulars	Rs.
Present value of instalments (197564 x 3.2828)	648563
Less. Interest tax shield	48514
Less. Depreciation tax shield	147727
Total	452322

<u>Determination of lease rental payable under Equated Annual Plan</u>

Let the (break-even) lease rental is Rs. X.
Applicable discount rate = 12(1-0.3) = 8.4% p.a.
So, Present value of after-tax lease rental
= Rs. X × (1- tax rate) × PVIFA (8.4%, 4 years)
= Rs. X × (1- 0.30) × 3.2828
= Rs. 2.29796X
Conditionally, 2.29796X = 452322
So, X = 196836
So, the maximum amount the lessee will be willing to pay for accepting the lease under an equal periodic plan (i.e., BELR) is Rs. 196836.

(b) Stepped-up Plan
Refer to the previous information. Assume that the lessor wants the rental to be in the ratio of 4:3:2:1. Calculate the lease rental.

Solution:

Present value of cash flow under buy option = Rs.452322

Present value of the after-tax lease rental

Year	Lease rental	After tax lease rental	PVIF @ 8.4%	PV of after-tax lease rental
1	4X	4X (1-0.30) = 2.8X	0.9225	2.583X
2	3X	3X (1-0.30) =2.1X	0.8510	1.7871X
3	2X	2X (1-0.30) =1.4X	0.7851	1.09914X

4	X	X (1-0.30) =0.7X	0.7242	0.50694X
Total				5.97618X

Conditionally, 5.97618X = 452322

or, X = 75687

So, the lease rental for 4th year = Rs.75687; for 3rd year = Rs.151374; for 2nd year = Rs.227061 and for 1st year = Rs. 302748.

(c) Stepped-down Plan

Refer to the previous information. Assume that the lessor wants the rental to be in the ratio of 1:2:3:4. Calculate the lease rental.

Solution:

Present value of cash flow under buy option = Rs.452322

Present value of the after-tax lease rental

Year	Lease rental	After tax lease rental	PVIF @ 8.4%	PV of after-tax lease rental
1	X	X (1-0.30) = 0.7X	0.9225	0.64575X
2	2X	2X (1-0.30) =1.4X	0.8510	1.1914X
3	3X	3X (1-0.30) =2.1X	0.7851	1.64871X
4	4X	4X (1-0.30) =2.8X	0.7242	2.02776X
Total				5.51362X

Conditionally, 5.51362X = 452322

or, X = 82037

So, the lease rental for 1st year = Rs.82037; for 2nd year = Rs.164074; for 3rd year = Rs.246111; for 4th year = Rs.328148.

(d) Balloon Payment Plan – it may be similar to a stepped-up plan.

(e) Deferred Payment Plan

Refer to the previous information. Assume that the lessee requires a plan to pay nothing in the first year and pay the rest equally in the remaining three years.

Solution:

Present value of cash flow under buy option = Rs.452322

Present value of the after-tax lease rental

Year	Lease rental	After tax lease rental	PVIF @ 8.4%	PV of after-tax lease rental
1	0	0	0.9225	0
2	X	X (1-0.30) =0.7X	0.8510	0.5957X
3	X	X (1-0.30) =0.7X	0.7851	0.54957X
4	X	X (1-0.30) =0.7X	0.7242	0.50694X
Total				1.65221X

Conditionally, 1.65221X = 452322

or, X = 273768

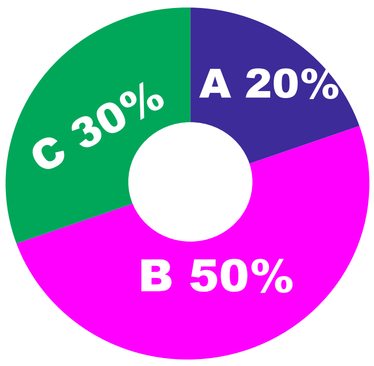
So, from the second year onwards, the lessee is required to pay Rs.273768 per year for three consecutive years.

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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

Your Preparation Quick Takes



Syllabus Structure

A Cost Management **20%**
B Strategic Cost Management Tools and Techniques **50%**
C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Learning Objectives:

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

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

Adopting KPMs for SWOT Analysis

01.00 Key Performance Measures (KPMs)

Key Performance Measures (KPMs) are a set of quantifiable measures that an enterprise uses to gauge and monitor its performance at any given point of time or over a specified period. A KPM could be an absolute figure or a ratio or any other comparable benchmark. These metrics can also be used to determine and evaluate the enterprise's progress in achieving its strategic and operational goals, and also to compare its performance with the performance of peers within same and other industries.

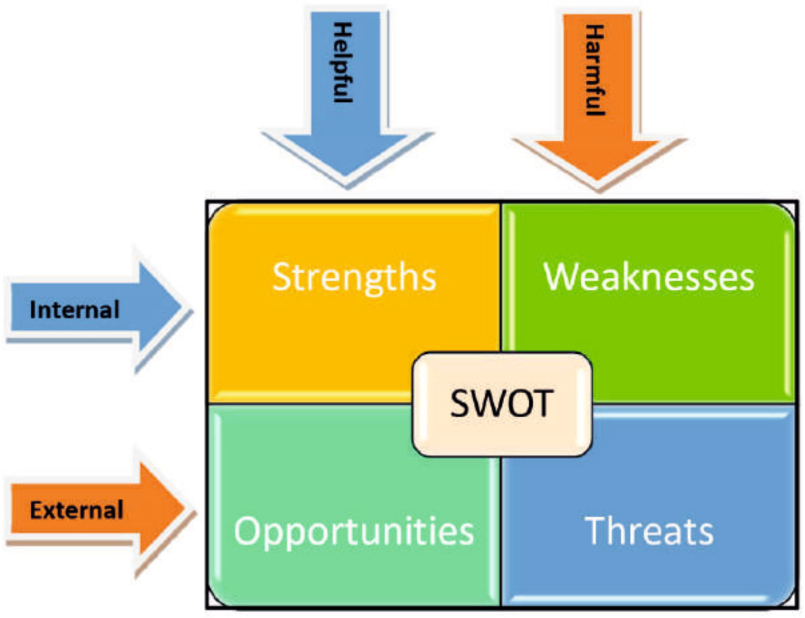
The KPMs may vary between companies and industries, depending on the situational priorities or performance criteria. Each measure is subject to the concept of normative range. Anything beyond the range, be it higher or be it lower, may be construed abnormal and is prone to careful scrutiny and evaluation.

KPMs are the strategic tools available easily to any of the enterprises, may it be small or big. They are easy to understand, convenient for adptation, and are prone to fair interpretations. They are useful not only to desect the past, but also to foresee the future in a scientific manner. Sincere implementation of the relevant KPMs can certainly add up to the competitive posture of an enterprise.

02.00 SWOT Analysis

SWOT Analysis is a strategic planning technique that provides rich insights about the favourable and unfavourable factors prevailing in the internal and external environment relating to an organization. The acronym SWOT stands for Strengths, Weaknesses, Threats and Opportunities. The analysis examines the strengths, weaknesses, opportunities and threats that are relevant to an organization, its products, services or markets.

The analysis assumes that strengths and weaknesses are generally internal to the organisation whereas opportunities and threats are external. Accordingly, Strengths refer to internal attributes those are helpful to the organization; Weaknesses refer to internal attributes those are harmful to the organization; Opportunities refer to external factors those are helpful to the organization; and Threats refer to external factors those are harmful to the organization.



The internal factors may include all of the 4Ps (Purpose, Process, Product, and Priority), as well as personnel, finance, manufacturing capabilities; and so on. The external factors may include macroeconomic elements, technological changes, legislation, and socio-cultural changes, as well as changes in the marketplace or competitive position.

The analysis examines the key factors impacting the internal and external capabilities of an enterprise; throws up the internal strengths and weaknesses of the organization; and highlights the environmental opportunities and threats that the organization has to encounter in strategizing the business ventures.

SWOT Analysis enables an enterprise to make the most of what it has got to its best advantage. It also helps the enterprise in minimising the chances of failure, by identifying what is lacking, and eliminating the hazards that would otherwise catch it unawares.

Over and above, the analysis facilitates crafting a strategy that distinguishes the entity from its peers. A short and simple SWOT analysis is a very useful resource which may be incorporated into an organization's strategic planning model.

03.00 SWOT of Spice Jet

SpiceJet is reported to be the second largest airline in India that carries many domestic passengers and is the largest in terms of regional connectivity and cargo operations. The company's theme driver for 2019-20 portrays it as "Persistent, Resilient and Prepared". It was established as an air traffic provider, 'ModiLuft' during the year 1994. It later was acquired by the Indian entrepreneur, Ajay Singh, in 2004 and rejuvenated its operations as SpiceJet.

SpiceJet owns a fleet of 105 aircrafts comprising 68 Boeing 737s and Max, 32 Q400, and 5 Freighters. During the year 2019-20, the airline has operated 240 passenger flights daily on an average covering 57 (47 domestic and 10 international) routes and 107 (63 domestic and 43 international) cargo destinations. In its annual report for 2019-20 the company highlights two of its strengths viz. Flexibly upsizing and downsizing capacity and Efficient financial management and cost control.

Flexibly upsizing and downsizing capacity: The company's flexibility to scale operations up and down as per demand provides it an edge in a highly cost sensitive aviation industry. This enables the company to capitalise on opportunities when demand is high and preserve resources when the demand is low.

The company was able to effectively tide over a turbulent FY 2019-20 that witnessed significant fluctuation in passenger demand. While the demand rose in the beginning of the year, it started to decline towards the end and finally completely halted due to lockdown. From adding 39 new aircraft to meet peak demand to ensuring sustained operations due to Max fleet grounding and scaling down resources when demand was low, SpiceJet acted swiftly to rescale capacities and resources as per the demand. The company's operational excellence and automation technologies proved critical at these times.

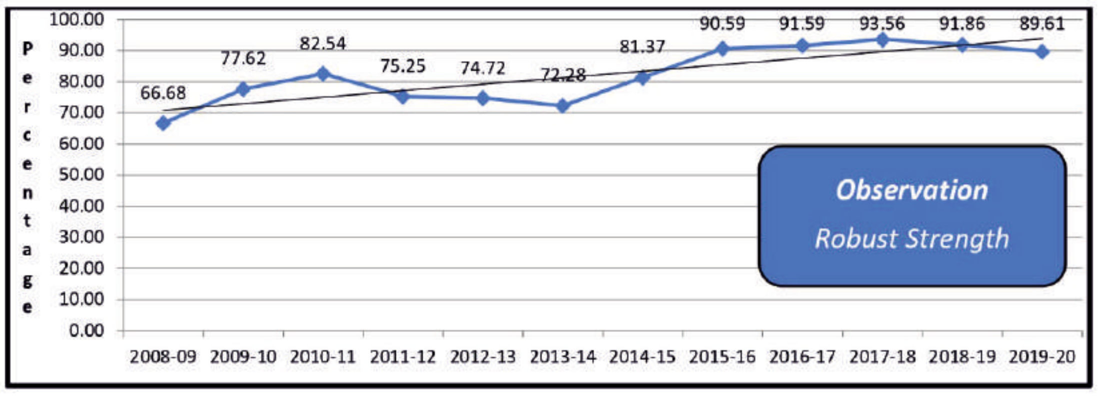
Efficient financial management and cost control: The multiple challenges in FY 2019-20 necessitated players to undertake effective financial management measure and business continuity plans. At these times, SpiceJet leveraged its good relations with partners/vendors to defer/ negotiate payments and its robust financial management capabilities to maintain good account and payable management. With this, the company was able to better manage cash flows and ensure sustained operations.

The company undertook several cost control measures such as cutting down unnecessary expense, employee compensation revision, renegotiating contracts, rationalising and optimising fleet utilisation, and redeployment of capacity in routes having higher demand. The operations operations at Mumbai and Delhi Airports were streamlined and consolidated at a single terminal which will result insubstantial savings.

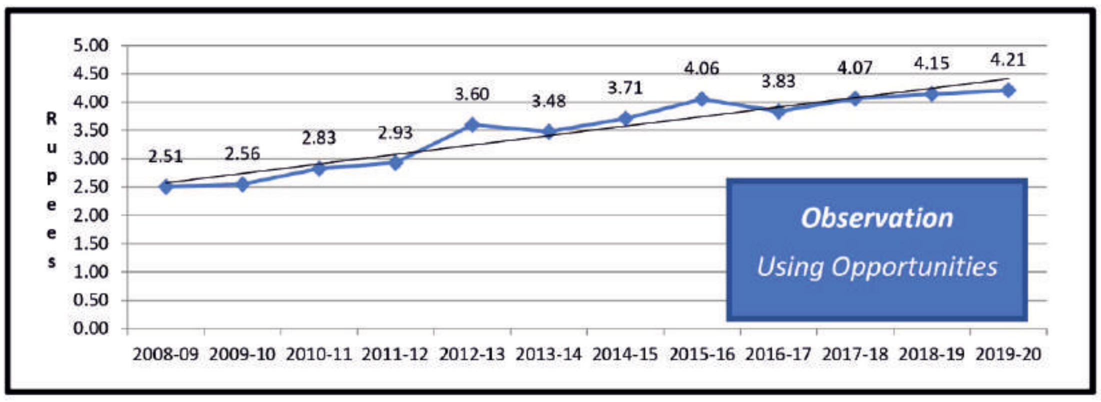
The Company continues to implement various measures such as enhancing customer experience, improving selling and distribution, revenue management and other costs control measures, to help the company establish consistent profitable operations and cashflows in the future.

Given this back ground, we venture to look into the SWOT posture of SpiceJet by means of graphical presentations of eight of the traditional KPMs computed from its financial statements for the period from 2008-09 to 2019-20.

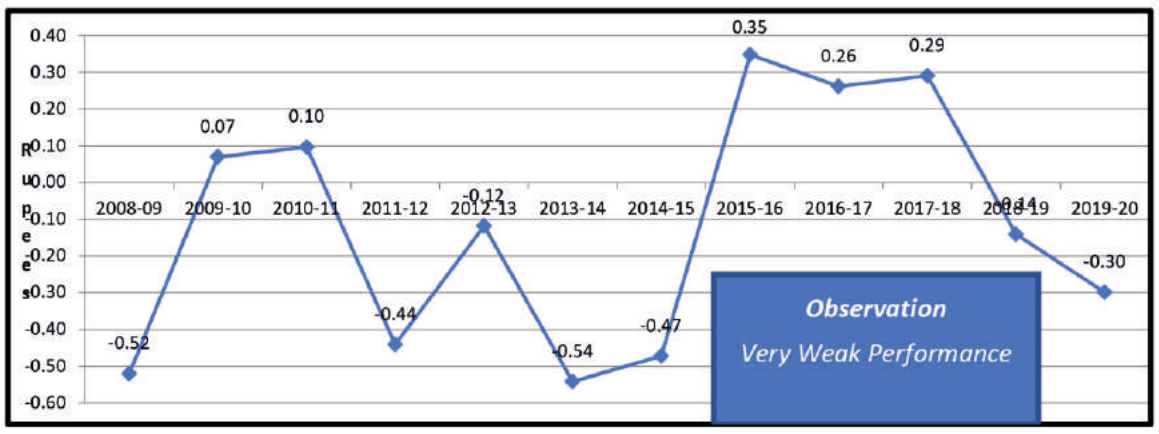
Graph1: Load Factor of SpiceJet



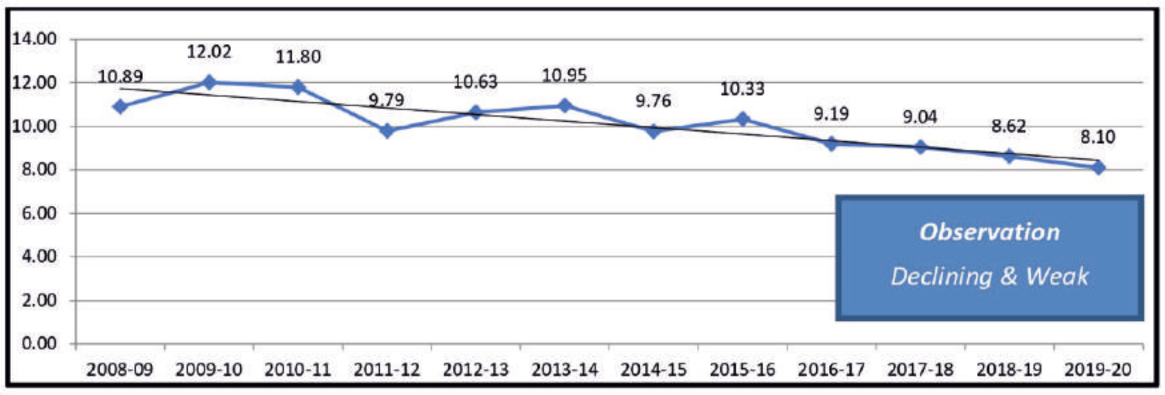
Graph 2: Revenue per Available Seat Kilo Metre of SpiceJet



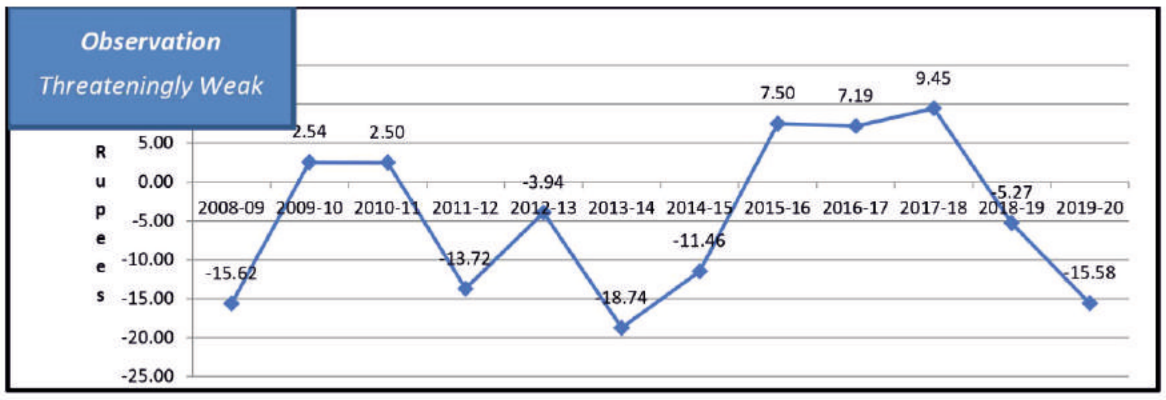
Graph 3: Profit After Tax per Available Seat Kilo Metre of SpiceJet



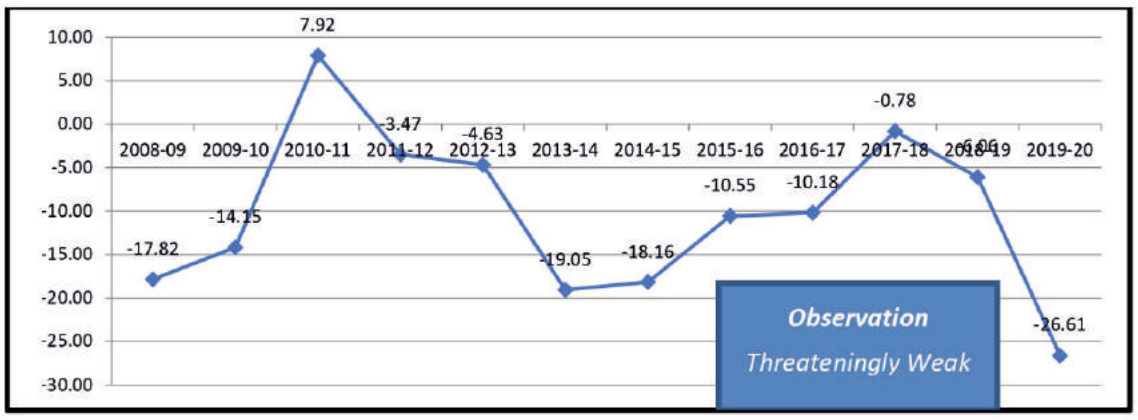
Graph 4: Employee Productivity of SpiceJet



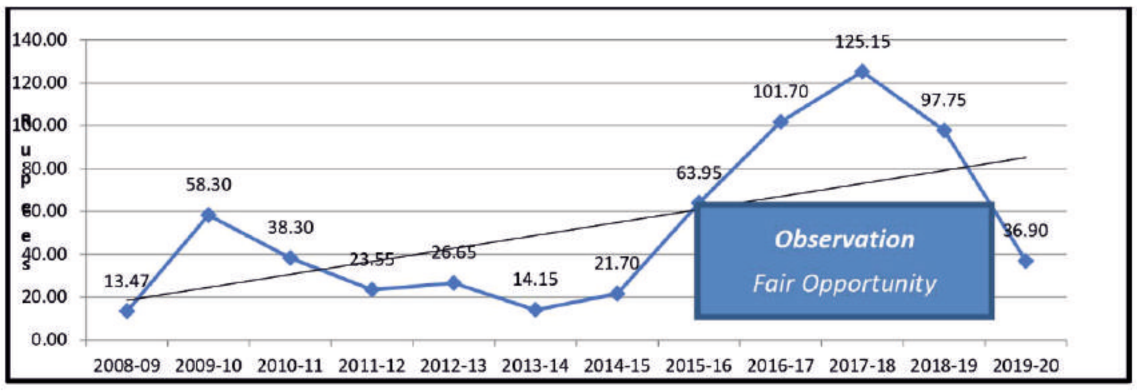
Graph 5: Earnings per Share of SpiceJet



Graph 6: Book Value per Share of SpiceJet



Graph 7: Market Value per Share of SpiceJet



Graph 8: Solvency of SpiceJet

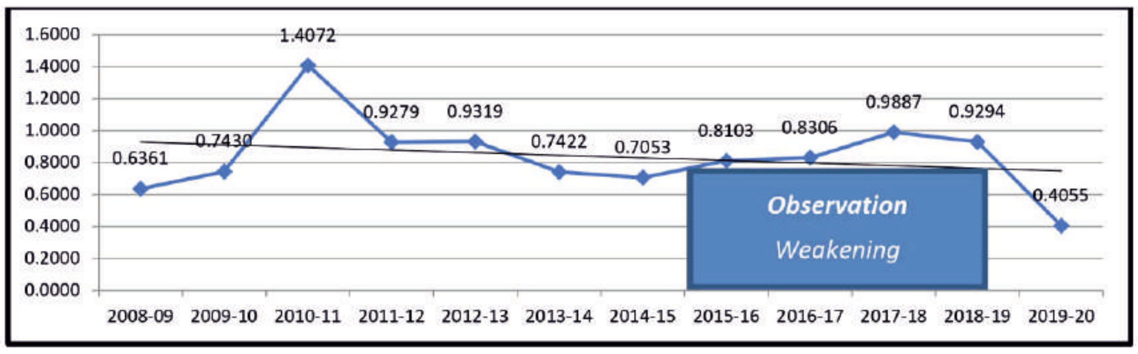


Table 1: Observations at Glance

Graph	KPM	Observed Trend	Observation
1	Load Factor	Upward	Robustly Strong
2	Revenue per ASKM	Upward	Using Opportunities
3	PAT per ASKM	Cyclical & Negative	Very Weak Performance
4	Employee Productivity	Marginally Downward	Declining & Weak
5	Earnings per Share	Cyclical & Negative	Threateningly Weak
6	Book Value per Share	Cyclical & Negative	Threateningly Weak
7	Market Price per Share	Cyclical & Positive	Fair Opportunity
8	Solvency	Low and Downward	Weakening

Table 2: Formulae at a Glance

KPM	Formula
Load Factor	(Passenger KM ÷ Available Seat KM) × 100
Revenue per ASKM	(Revenue ÷ Available Seat KM)
PAT per ASKM	(Profit After Tax ÷ Available Seat KM)
Employee Productivity	(Income from Operations ÷ Employee Cost)
Earnings per Share	(Profit After Tax ÷ Number of Equity Shares of Rs.10 each)
Book Value per Share	(Net Worth ÷ Number of Equity Shares of Rs.10 each)
Market Price per Share	Market price as at the Year End
Solvency	(Total Assets ÷ Total Liabilities)

04.00 Quick Take

The tabulated observations are self explanatory as to the SWOT posture of SpiceJet. Evidently, adopting KPMs for SWOT Analysis could be quite simple and revealing!

Resources

Annual Reports of SpiceJet Limited from 2008-09 to 2019-20

Vol: 6, No.: 6.
June 2021, Issue

GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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

Your Preparation Quick Takes

Syllabus Structure

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

PENALTY FOR UNDER REPORTING & MISREPORTING

Under the earlier legislation, the levy of penalty for concealment or furnishing of inaccurate particulars of income u/s 271(1)(c) has always been a matter of dispute between the revenue authorities and the taxpayers. There was lack of specificity in terms of quantum of penalty.

Under the earlier provisions, Income-tax Officer had the discretion to levy penalty ranging from 100% to 300% of tax sought to be evaded. The discretion regarding quantum of penalty led to corruption and a large number of pending disputes despite a number of judicial precedents on the interpretation of statutory provisions. The tax authorities always tried to levy the penalty whenever there was an addition or disallowance made by the assessing officer, even in cases where there was no prima facie case against the taxpayer.

Under the new scheme for the imposition of the penalty, matters are classified into two parts:

- Under Reporting of Income; and
- Misreporting of Income

Penalty for under-reporting and misreporting of income [Sec. 270A]

The

- *Assessing Officer; or*
- *Commissioner (Appeals); or*
- *Principal Commissioner or Commissioner*

may, during the course of any proceedings under this Act, direct that any person who has under-reported his income shall be liable to pay a penalty in addition to tax, if any, on the under-reported income.

Taxpoint

- Penalty proceedings must be initiated before completion of the assessment or appeal order or revision order, as the case may be.
- Penalty order is different from assessment order. Aggrieved with the penalty order passed by the Assessing Officer, the assessee is required to file separate appeal to the Commissioner (Appeals) or separate revision petition u/s 264 or separate rectification petition u/s 154. Further, appeal can be filed with the Tribunal against the penalty order passed by the Commissioner (Appeals) or Principal Commissioner or Commissioner.
- Tribunal cannot impose penalty
- Penalty shall be imposed by the respective income-tax authority on addition made by them. E.g., on addition being made by the Assessing Officer, Commissioner (Appeals) cannot levy penalty. Even the Assessing Officer fails to levy penalty on such addition, Commissioner (Appeals) cannot levy penalty on such addition made by the Assessing Officer. In *CIT -vs.- Shadiram Balmukund*, the Apex court has held that the Assessing officer can levy penalty on the additions made by him and not on the additions made by Commissioner (Appeals). Similarly, Commissioner (Appeals) can levy penalty on the additions made by him and not on the additions made by the Assessing Officer.

Quantum of penalty [Sec. 270A(7) & (8)]

- **50%** of the amount of tax payable on under-reported income [Sec. 270A(7)]
- **200%** of the amount of tax payable on under-reported income, where under-reported income is in consequence of any misreporting thereof by any person - [Sec. 270A(8)]

Cases of under-reporting of income [Sec. 270A(2)]

A person shall be considered to have under-reported his income, if:

a. the income assessed is greater than the income determined in the return processed u/s 143(1)(a);

b. the income assessed is greater than the maximum amount not chargeable to tax, where no return of income has been furnished or where return has been furnished for the first time u/s 148;

c. the income reassessed is greater than the income assessed or reassessed immediately before such reassessment;

d. the amount of deemed total income assessed or reassessed u/s 115JB or 115JC is greater than the deemed total income determined in the return processed u/s 143(1)(a);

e. the amount of deemed total income assessed u/s 115JB or 115JC is greater than the maximum amount not chargeable to tax, where no return of income has been filed or where return has been furnished for the first time u/s 148;

f. the amount of deemed total income reassessed u/s 115JB or 115JC is greater than the deemed total income assessed or reassessed immediately before such reassessment;

g. the income assessed or reassessed has the effect of reducing the loss or converting such loss into income.

Illustration 1

Computation of under-reported income assuming income has been assessed for the first time:

Assessee	Return Filed	Income u/s 143(1)(a)	Assessed Income	Underreported Income	Tax payable on (a)	Tax payable on (b)	Tax payable on (c)	Penalty
		a	b	c = (b – a)	d	e	f = (e – d)	f x 50%
Individual	Yes	6,00,000	10,00,000	4,00,000	33,800	1,17,000	83,200	41,600
Firm	Yes	17,00,000	20,00,000	3,00,000	5,30,400	6,24,000	93,600	46,800
Firm	Yes	(8,00,000)	20,00,000	28,00,000	-	8,73,600	8,73,600	4,36,800
Individual	Yes	(9,00,000)	(3,00,000)	6,00,000	-	33,800	33,800	16,900
Firm	No	N.A.	8,00,000	8,00,000	-	2,49,600	2,49,600	1,24,800
Individual	No	N.A.	7,50,000	5,00,000#	-	65,000	65,000	32,500

Assessed income as reduced by basic exemption

200% of (f) shall be levied as penalty if the case is misreporting of income.

Illustration 2

Computation of under-reported income assuming income has not been assessed for the first time:

Assessee	Income assessed in the preceding order	Reassessed Income	Under-reported Income
Individual	7,00,000	12,00,000	5,00,000
Company	20,00,000	22,00,000	2,00,000

Illustration 3

Compute penalty leviable u/s 270A in case of X Ltd from the following details:

Particulars	Total Income	Tax on Total Income	Book Profit	Tax on Book Profit
Return of income	80,00,000	24,96,000	2,00,00,000	33,38,400
Assessed income	1,20,00,000	40,06,080	2,10,00,000	35,05,320

Solution

Computation of penalty

Particulars		Amount
Under-reported income		
Total income computed by the Assessing Officer	A	1,20,00,000
Total income as per return of income	B	80,00,000
Book profit computed by the Assessing Officer	C	2,10,00,000
Book profit as per return of income	D	2,00,00,000
Under-reported income [(A – B) + (C – D)]		**50,00,000**

Tax on under-reported income		
Tax on A	P	40,06,080
Tax on B	Q	24,96,000
Tax on C	R	35,05,320
Tax on D	S	33,38,400
Tax on Under-reported income [(P – Q) + (R – S)]	T	16,77,000
Penalty u/s 270A		
Minimum (being 50% of T)		8,38,500
Maximum (being 200% of T)		33,54,000

Illustration 4

In the above example, out of addition of ₹ 10 lakh made in the book profit and ₹ 40 lakh made in the total income (under general provisions), ₹ 3,00,000 was made on the same ground. Compute penalty u/s 270A.

Solution

Computation of penalty

Particulars		**Amount**
Under-reported income		
Total income computed by the Assessing Officer	A	1,20,00,000
Total income as per return of income	B	80,00,000
Book profit computed by the Assessing Officer	C	2,10,00,000
Book profit as per return of income	D	2,03,00,000
Under-reported income [(A – B) + (C – D)]		**47,00,000**
Tax on under-reported income		
Tax on A	P	40,06,080
Tax on B	Q	24,96,000
Tax on C	R	35,05,320
Tax on D	S	33,88,476
Tax on Under-reported income [(P – Q) + (R – S)]	T	16,26,924
Penalty u/s 270A		
Minimum (being 50% of T)		8,13,462
Maximum (being 200% of T)		32,53,848

Vol: 6, No.: 6.
June 2021, Issue

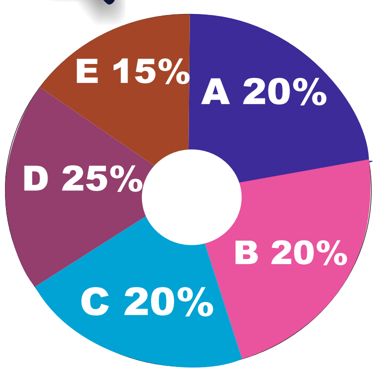
YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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

Your Preparation Quick Takes



Syllabus Structure

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

Accounting for merger and amalgamation

Ind AS 103 Business Combination

1. A business combination is a transaction or other event in which an acquirer obtains **control** of one or more **businesses**.
2. Accounting and reporting are made under Acquisition Method.

Under Acquisition Method the acquirer

(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at Fair Value;

(b) Non-controlling interest at its fair value at the acquisition date or at the non-controlling interest's **proportionate share** of the acquiree's identifiable net assets.

(c) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase on the acquisition date as excess of (A) over (B) and Gain from bargain purchase as excess of (B) over (A) as stated below:

Where, A = The aggregate of (i) Fair value of consideration transferred.
(ii) Recognised amount of any NCI in acquiree.
(iii) Fair value of any previously held equity interest in the acquiree (for a business combination achieved in stages).

and B = Net of acquisition-date amounts of the identifiable assets acquired and liabilities assumed.
Where the acquiree winds up, in the book of acquirer recording is made in individual set of accounts and books of the acquiree are closed. [Illustration 1 and 2]
Where the acquiree continues to legally exist, in the book of acquirer recording is made in both consolidated and separate sets of accounts and books of the acquiree are not touched. [Illustration 1a and 2a].
If in the combined entity legal acquiree holds the control, it is a business combination by reverse acquisition, where in the consolidated accounts, the legal acquirer will be considered as accounting acquiree. [Illustration 2b]

Illustration 1.
A Ltd. acquires B Ltd. for Rs 9,60,000. Fair Value (FV) of B's net assets at time of acquisition amounts Rs. 8,00,000. Required:

1. Calculate Goodwill.
2. Journal Entries in the books of A.

Solution:
Purchase consideration Rs. 9,60,000 FV of Net Assets Rs.8,00,000
Goodwill = Consideration– Net Assets = Rs. (9,60,000– 8,00,000) = 1,60,000

Journal entry (in Individual set of accounts)
Net assets Dr 8,00,000
Goodwill Dr 1,60,000
To, Consideration Cr 9,60,000

In books of B
All Accounts would be closed through Realisation A/C

Illustration 1 a.
A Ltd. acquires 100% shares of B Ltd. for Rs 9,60,000. Fair Value (FV) of B's net assets at time of acquisition amounts Rs. 8,00,000.

Required:
1. Calculate Goodwill.
2. Journal Entries in the books of A.

Solution:
Purchase consideration Rs. 9,60,000 FV of Net Assets Rs.8,00,000
Goodwill = Consideration– Net Assets = Rs. (9,60,000– 8,00,000) = 1,60,000
Journal entry (in consolidated set)
Net assets Dr 8,00,000
Goodwill Dr 1,60,000

To, Consideration Cr 9,60,000
Journal entry (in separate set)
Investment in shares of B Dr. 960000
To Consideration 960000

In books of B
No accounting.

Illustration 2.
On March 31, 201X, K Ltd acquired L Ltd. K issued 9,00,000 equity shares (Rs. 10) that were trading at Rs 16 on March 31. The summarized Balance Sheets of the companies as at March 31:

	(Bk Value)		(Mkt Value)	
	K Ltd.	L Ltd.	K Ltd.	L Ltd.
Net Assets	14000000	8600000	18000000	13500000
Equity Sh. Cap	9000000	7500000		
Other Equity	5000000	1100000		

Show acquisition journal entry under Ind AS 103.

Solution
Purchase consideration 900000X16 = Rs. 144,00,000; FV of Net Assets Rs.135,00,000
Goodwill = Consideration– Net Assets = Rs. (144,00,000 – 135,00,000) = 9,00,000

Journal Entry: (individual set of K)
Net assets Dr. Rs. 135,00,000
Goodwill Dr. Rs. 9,00,000
To, Consideration 14400000
Consideration 14400000
To, Equity Share Capital Cr. Rs. 90,00,000
To, Security Premium A/C Cr. Rs. 54,00,000

Summarized Individual Balance sheet of K Ltd. as at March 31 (post acquisition)

Net Assets:		
Carrying amount of Acquirer K	14000000	
Fair Value of Acquiree L	13500000	
		27500000
Goodwill		900000
Total Net Assets		**28400000**
Equity:		
Equity Share Capital		
Existing	9000000	
Issue for consideration	9000000	
		18000000
Other Equity:		
Carrying amount	5000000	
Security Premium (on issue of shares)	5400000	
		10400000
Total Equity		**28400000**

No consolidated or separate set is required.
In books of L: accounts are closed through Realisation A/C.

Realisation A/C	Dr.	8600000	
To, Net Assets A/C			8600000
Equity Shares in K		14400000	
To, Realisation A/C			14400000
Realisation A/C	Dr.	5800000	
To, Equity Shareholders' A/C			5800000
Equity Share Capital A/C	Dr.	7500000	
Other Equity	Dr.	1100000	
To, Equity Shareholders A/C			8600000
Equity Shareholders' A/C	Dr.	14400000	
To, Equity Shares in K			14400000

Realisation A/C

Net Assets	8600000	Equity Shares in K	14400000
Equity Shareholders' A/C	5800000		
	14400000		14400000

Equity Shareholders' A/C

Equity Shares in K	14400000	Equity Share Capital	7500000
		Other Equity	1100000
		Realisation A/C	5800000
	14400000		14400000

Illustration 2a.
On March 31, 201X, K Ltd acquired 100% shares of L Ltd. K issued 9,00,000 equity shares (Rs. 10) that were trading at Rs 16 on March 31.
The summarized Balance Sheets of the companies as at March 31:

	(Bk Value)		(Mkt Value)	
	K Ltd.	L Ltd.	K Ltd.	L Ltd.
Net Assets	14000000	8600000	18000000	13500000
Equity Sh. Cap	9000000	7500000		
Other Equity	5000000	1100000		

Show acquisition journal entries and balance sheet under Ind AS 103.

Solution:
Purchase consideration 900000X16 = Rs. 144,00,000; FV of Net Assets Rs.135,00,000
Goodwill = Consideration– Net Assets = Rs. (144,00,000 – 135,00,000) = 9,00,000
Journal Entry: (Consolidated set of K)

Net assets Dr. Goodwill Dr. To, Consideration	1,35,00,000 9,00,000	1,44,00,000
Consideration To, Equity Share Capital Cr. To, Security Premium A/C Cr.	1,44,00,000	90,00,000 54,00,000

Summarized Consolidated Balance sheet of K Ltd. as at March 31 (post acquisition)

	Rs.	Rs.
Net Assets:		
Carrying amount of Acquirer K	14000000	
Fair Value of Acquiree L	13500000	
		27500000
Goodwill		900000
Total Net Assets		**28400000**
Equity:		
Equity Share Capital		
Existing	9000000	
Issue for consideration	9000000	
		18000000
Other Equity:		
Carrying amount	5000000	
Security Premium (on issue of shares)	5400000	
		10400000
Total Equity		**28400000**

Journal Entry: (Separate set of K)

Investment in Shares of L	Dr.	14400000	
To, E. Share Capital			9000000
To, Security Premium A/C			5400000

Summarized Separate Balance sheet of K Ltd. as at March 31 (post acquisition)

	Rs.	Rs.
Net Assets:		
Carrying amount of Acquirer K	14000000	
Investment in Shares of L	14400000	
		28400000
Total Net Assets		**28400000**
Equity:		
Equity Share Capital		
Existing	9000000	
Issue for consideration	9000000	
		18000000
Other Equity:		
Carrying amount	5000000	
Security Premium (on issue of shares)	5400000	
		10400000

Total Equity		**28400000**

In books of L: No entry

Illustration 2b.
On March 31, 201X, K Ltd acquired 100% shares of L Ltd. in exchange of 9,00,000 equity shares (Rs. 10) that were trading at Rs 14 on March 31.
The summarized Balance Sheets of the companies as at March 31:

	(Bk Value)		(Mkt Value)	
	K Ltd.	L Ltd.	K Ltd.	L Ltd.
Net Assets	8000000	8600000	8000000	13500000
Equity Sh. Cap (Rs. 10)	6000000	6500000		
Other Equity	2000000	2100000		

Show acquisition journal entries and balance sheet under Ind AS 103.
Solution: In the combined entity the shareholders of L hold 900000 shares and the shareholders of K hold 600000 shares. Legal acquirer is K but accounting acquirer is L. It is Reverse Acquisition.
Purchase consideration for all the shares of the accounting acquiree K = 600000X14 = Rs. 84,00,000; FV of Net Assets identified (of the accounting acquiree) = Rs.80,00,000
Goodwill = Consideration– Net Assets = Rs. (96,00,000 – 90,00,000) = 6,00,000

Journal Entry: (Consolidated set of K) (amount in rupees)

Net assets Dr. Goodwill Dr. To, Consideration	80,00,000 4,00,000	 84,00,000
Consideration Dr. To, Equity Share Capital A/c	84,00,000	 84,00,000

Summarized Consolidated Balance sheet of K Ltd. as at March 31 (post acquisition)

	Rs.	Rs.
Net Assets:		
Carrying amount of L (Accounting Acquirer)	8600000	
Fair Value of K (Accounting Acquiree)	8000000	
		1,66,00000
Goodwill		4,00,000
Total Net Assets		**1,70,00,000**
Equity:		
Equity Share Capital (600000+900000 = 1500000 shares of K)		
Carrying amount of L	6500000	
Issue for consideration	8400000	
		1,49,00,000
Other Equity:		
Carrying amount of L		21,00,000
Total Equity		**1,70,00,000**

Journal Entry: (Separate set of K)
Investment in Shares of L Dr. 12600000

To, Equity Share Capital 9000000
To, Security Premium A/C 3600000
(Investment = 900000*(10+4))

Summarized Separate Balance sheet of K Ltd. as at March 31 (post acquisition)

	Rs.	Rs.
Net Assets: Carrying amount of Acquirer K		8000000
Investment in Shares of L		12600000
		20600000
Total Net Assets		**20600000**
Equity:		
Equity Share Capital		
Existing	6000000	
Issue for consideration	9000000	
		15000000
Other Equity:		
Carrying amount of K	2000000	
Security Premium (on issue of shares)	3600000	
		5600000
Total Equity		**20600000**

In books of L: No entry

=====

150 YEARS OF CELEBRATING THE MAHATMA

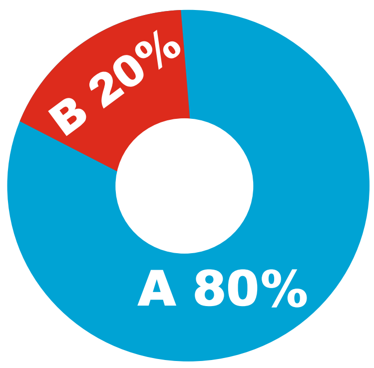
GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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

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

- Owner's right of warehoused goods
- Various import and export schemes
- General Free Allowance of baggage
- Levy of import duty
- Second Appraisement System
- Refund claim on Import Duty
- Interest rate of short payment
- Meaning of certain terminology

INDIRECT TAX

Choose the correct option from the followings –

1. **As per Sect 64 of the Customs Act, 1962 after warehousing the goods which one will** not be considered as owner's right to deal with the warehoused goods
   (a) Inspect the goods
   (b) Sort the goods
   (c) Show the goods for sale
   (d) May take physical control

2. **The scheme permits duty free import of raw materials / Inputs against export is**
   (a) Duty Exemption Enlistment Certificate (DEEC) Scheme (Advance License)
   (b) Duty free Replenishment Certificate (DFRC) Scheme
   (c) Director General Foreign Trade (DGFT) Special Scheme
   (d) Duty Exemption Pass Book Scheme (DEPB) Scheme

3. **Under Export Promotion Capital Goods Scheme (EPCG)**
   (a) Exporter can procure capital goods at a concessional rate of duty
   (b) The exporters are allowed a duty exemption pass book credit against export
   (c) Exporters are permitted to import raw materials, required for export goods
   (d) Exporters are allowed to procure capital goods against the imports from the same country

4. **As per Customs act Baggage means**
   (a) All dutiable goods imported by a passenger or a member of a crew in his baggage
   (b) Motor vehicle imported by a passenger or a member of a crew in his baggage
   (c) Alcoholic drinks imported by a passenger or a member of a crew in his baggage
   (d) Goods imported through courier

5. **General Free Allowance will be allowed without payment of duty for bona fide baggage (i.e. used personal effects) for Indian resident coming from Nepal, Bhutan or Myanmar by Air Craft up to**
   (a) Rs 10000/- per person
   (b) Rs 15000/- per person
   (c) Rs 20000/- per person
   (d) Rs 50000/- per person

6. **In which of the following import, import duty will not be levied**
   (a) Cartridge of firearms 60 nos
   (b) Gold and silver bar
   (c) Alcoholic liquor of two liter
   (d) Flat Panel LED television

7. **Duty Free Allowance for bringing one laptop computer (notebook computer) will be applicable**
   (a) All passenger coming from US, Europe and SARC countries
   (b) All passenger coming from foreign countries other than Pakistan and Sri Lanka
   (c) Any Indian passenger who has been residing abroad for one year
   (d) Passenger of 18 years and above coming from abroad

8. **A person who is engaged in a profession abroad is transferring his / her residence to India can bring used household up to Rs 200000/- if the stays is**
   (a) 3 – 6 months
   (b) 6 – 12 months
   (c) 1 – 2 years
   (d) Above 2 years

9. **A crew member of an aircraft at the time of returning of the aircraft from foreign journey can bring gift items for their personal or family use which shall not exceed**
   the value
   (a) Rs 1500/-
   (b) Rs 2500/-
   (c) Rs 3500/-
   (d) Rs 5000/-

10. **The current limit for duty free import of sample in terms of NT 154/94 Customs is**
   (a) Rs 100000/-
   (b) Rs 200000/-
   (c) Rs 300000/-
   (d) Rs 400000/-

11. **A lady passenger residing abroad for more than one year and on return to India shall**
   be allowed clearance free of duty in her bona fide baggage of jewellery
   (a) Up to a weight of 10 grams or a value cap of Rs 25000/-
   (b) Up to a weight of 20 grams or a value cap of Rs 50000/-
   (c) Up to a weight of 30 grams or a value cap of Rs 75000/-
   (d) Up to a weight of 40 grams or a value cap of Rs 100000/-

12. **As per the Customs Act Second Appraisement System means**
   (a) The goods are examined first then assessed
   (b) The goods are assessed first and then examine
   (c) The goods are assessed after submission of Contract Agreement
   (d) The goods are assed after submission of Brokers Note

13. **Which of the following statement is correct in relation to duty paid on imported goods can be claimed for refund**
   (a) Goods are found defective
   (b) Goods are easily identifiable as imported goods
   (c) No drawback claim is made
   (d) All the above

14. **Which one of the following will not be considered as relevant date for filing of refund claim**
   (a) Date of inspection of goods
   (b) Let export order issued
   (c) Date of abandonment
   (d) Date of destruction of goods as the case may be

15. **In relation to Chartered Accountant's Certificate for claiming refund under section**
   27 of the Customs Act, 1962 which of the following statement is correct
   (a) Chartered Accountant certificate is sufficient to claim refund
   (b) Chartered Accountant certificate is not sufficient to claim refund
   (c) Chartered Accountant certificate should accompany physical verification certificate
   (d) Chartered Accountant certificate should specifically mentioned the condition of the goods relates to refund claim

16. **After Provisional assessment as per Customs Act, 1962 if differential amount is found to be payable after final assessment or re assessment the interest to be paid**
   (a) @ 10%
   (b) @ 12%
   (c) @ 15%
   (d) @ 20%

17. **As per section 17(5) of Customs Act, 1962 where the importer or exporter does not accept the reassessment in writing, the proper officer shall pass an order within 15 days from the date of assessment of "Bill of Entry" known as**
   (a) Provisional Order
   (b) Commissioner's Order

(c) Speaking Order
(d) Protest Order

18. **Goods imported from a foreign country into India, unable to clear from the port within 3 working days due to delay is from Customs Authorities, then the authorities will issue for bona fide import**
(a) Clearance Certificate
(b) Delayed Certificate
(c) Facility Certificate
(d) Detention certificate

19. **In case of imported goods are sent to shore in a small cargo due to inadequate depth of sea or vessel may not find the time in having berth in port should accompany**
(a) Boat Note
(b) Small Cargo Certificate
(c) Special Customs Note
(d) Port Advice

20. **As per Section 110 of the Customs Act, 1962 to take possession of the property contrary to the wishes of the owner of the goods in pursuance of a demand under**
legal right means
(a) Detention
(b) Seizure
(c) Custody
(d) Confiscation

ANSWERS

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

Vol: 6, No.: 6.
June 2021, Issue

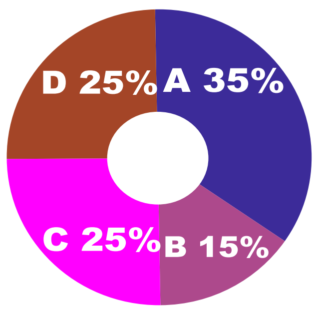
YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

CMA S S Sonthalia
Practicing Cost Accountant
He can be reached at:
sonthalia_ss@yahoo.co.in

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

Provisions and procedures for appointment of Cost Auditor

Introduction

Section 148 of the Companies Act, 2013, contains the provisions relating to Cost Audit.

As per Sec.148 (3) of the Companies Act 2013 and Chapter X, the audit under sub-section (2) shall be conducted by a Cost Accountant in practice who shall be appointed by the Board of Directors of company who will also approve the remuneration and scope of work of the cost auditor

However where the company also have Audit Committee, appointment and remuneration approved by Board is on the recommended of the audit committee.

Applicability of cost audit to the Companies

Rule 6 of the Companies (Cost Records and Audit) Rule 2014, (CCRA Rule 2014) as amended contains the provisions.

As per the rule the companies are classified in to two sectors and applicability of cost audit is based on the Turnover of the respective sector company.

a. Regulated Sector industries
b. Non-regulated Sector industries

For Regulated Sector companies the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained is rupees twenty five crore or more.

For Non-regulated Sector companies the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained is rupees thirty five crore or more.

Who can be appointed as a cost auditor?

Only a Cost Accountant, as defined under section 2(28) of the Companies Act, 2013, can be appointed as a cost auditor. Clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 defines "Cost Accountant" who holds a valid certificate of practice under sub-section (1) of section 6 of the Cost and Works Accountants Act, 1959 and is in whole-time practice as cost accountant. Cost Accountant includes a Firm of Cost Accountants and a LLP of cost accountants.

A cost accountant holding certificate of practiced on part time basis is not entitled to conduct cost audit. Thus, only a cost accountant in whole-time practice can conduct cost audit. Further that no person appointed under section 139 of the Companies Act 2013 as an auditor of the company shall be appointed as cost auditor.

Appointment process

1 On achieving the turnover in the previous year i.e say as on 31.03.218 (financial year 2017-18), the cost auditor need to be appointed within one hundred and eighty days of the commencement of next financial year i.e by 27.09.2018 (financial year 2018-19)

2 Before the appointment of cost auditor a written consent and a certificate is to be obtained from him or it, as provided in sub-rule (1A) of the CCRA Rule 2014 containing that.

a. The cost auditor firm is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959(23 of 1959) and the rules or regulations made thereunder;

b. The individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;

c. The proposed appointment is within the limits laid down by or under the authority of the Act; and

d. The list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.";

Disqualification for appointment as Cost auditor

As per provisions of Sec. 141 (3) of The Companies Act 2013, the followings are not eligible for appointment as cost auditor.

i. a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
ii. an officer or employee of the company;
iii. a person who is a partner, or who is in the employment, of an officer or employee of the company;
iv. a person who, or his relative or partner—
v. is not holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company not exceeding face value one thousand rupees :
vi. is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or
vii. has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;
viii. a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;
ix. a person who's relative is a director or is in the employment of the company as a director or key managerial personnel;
x. a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
xi a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
xi. any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.

Appointment provisions

(1) Every company after appointment shall inform the cost auditor concerned of his or its appointment and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier.
(2) The notice of appointment is filed through electronic mode, in form CRA-2, along with copy of Board resolution, consent letter of cost auditor and the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.
(3) If any default is made in complying with the provisions of section 148, the company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147.
(4) For delay in filing intimation with Central Govt., the company is liable pay normal fee plus additional fees based on period of delay which could be 12 Times of Nominal fees for delay beyond 180 Days.
(5) Every cost auditor appointed on his or her appointment shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.
(6) The cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing. On removal the company need to file another Form CRA-2 with the Central Government enclosing the relevant Board Resolution to this effect.
(7) The cost auditor has also right to resign as a cost auditor of the company.
(8) Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of appointment of new cost auditor.

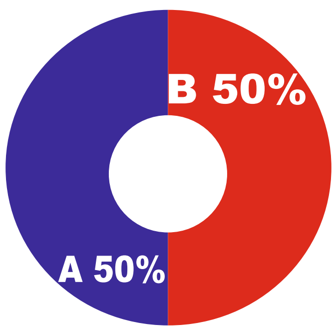
Vol: 6, No.: 6.
June 2021, Issue

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta
He can be reached at:
cu.ashis@gmail.com

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%**

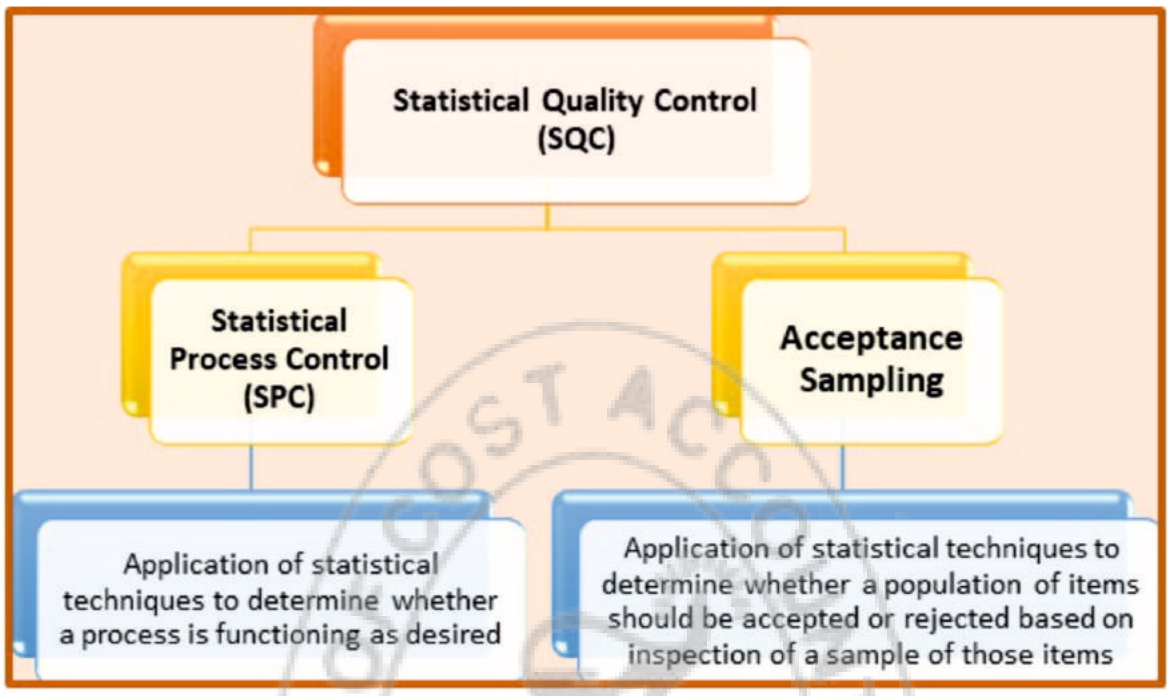
Learning objectives:

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

Statistical Quality Control (SQC)

Statistical Quality Control is the application of statistical techniques to measure and evaluate the quality of a product, service, or process.



Statistical Process Control (SPC)

Statistical process control (SPC) monitors specified quality characteristics of a product or service so as:

- To detect whether the process has changed in a way that will affect product quality and
- To measure the current quality of products or services.

Control Charts: Control is maintained through the use of control charts. The charts have upper and lower control limits and the process is in control if sample measurements are between the limits. It is shown in the next table.

Control Charts

Control Chart for Attributes	Control Chart for Variables
• P Charts - measures proportion defective. • C Charts - measures the number of defects/unit.	• X bar and R charts are used together - control a process by ensuring that the sample average and range remain within limits for both.

p-chart

p-chart is a statistical control chart that plots movement in the sample proportion defective (p) over time.
The underlying statistical sampling distribution is the binomial distribution, but can be approximated by the normal distribution with:
Mean = u = np
Standard deviation of p: sigmap = square root of (p(1 -p) / n)
where p = Historical population proportion defective and n = Sample size
Control Limits:
UCL = u + z sigmap LCL = u - z sigma p
z is the number of standard deviations from the mean.
If z = 1, if p has not changed and exceed the limits in 32% of the samples (68% confidence that mean has changed if the limits are exceeded)
z = 2 - limits will be exceeded in 4.5 (95.5 % confidence that mean has changed)
z = 3 - limits will be exceeded in .03 (99.7% confidence)

c-chart

c-chart is a statistical control chart that plots movement in the number of defects per unit.
The underlying sampling distribution is the Poisson distribution, but can be approximated by the normal distribution with:
Mean = c
Standard deviation = square root of c where c is the historical average number of defects/unit
Control Limits:
UCL = c + z c LCL = c - z c

X bar R-Chart

Two charts are used together: R-chart ("range chart") and X bar chart ("average chart") Both the process variability (measured by the R-chart) and the process average (measured by the X bar chart) must be in control before the process can be said to be in control.
R-Chart for Process Variability:
UCLR = D4(R)
LCLR = D3(R)
Where R Chart is the average of past R values, and D3 and D4 are constants based on the sample size
Chart for Process Average:
UCLR = X bar + A2(R)
LCL = X bar - A2(R)
Where X bar is the average of several past values, and A2 is a constant based on the sample size

Acceptance Sampling

- This technique is used to accept or reject a batch of items.
- It frequently used to test incoming materials from suppliers or other parts of the organization prior to entry into the production process.
- It is also used to determine whether to accept or reject a batch of products.
- It measures number of defects in a sample. Based on the number of defects in the sample the batch is either accepted or rejected. An acceptance level c is specified. If the number of defects in the sample is c the batch is accepted, otherwise it is rejected and subjected to 100% inspection

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

1. **Which term is having a closest meaning as Sampling Distributions?**
(A) Control charts
(B) Onsite inspection
(C) Whole lot inspection
(D) Acceptance sampling

2. **Process capability generally uses ___________**
(A) Specifications
(B) Control Limits
(C) Process standard deviation
(D) Mean of any one sample

3. **What type of chart will be used to plot the number of defectives in the output of any process?**
(A) $\bar{x}$ Chart
(B) R chart
(C) c chart
(D) p chart

4. **Which of the following chart types would be used to monitor the average weight of the contents of a box of cereal?**
(A) $\bar{x}$ Chart
(B) R-chart
(C) p-chart
(D) c-chart

5. **Which of the following chart types would be used to monitor the range of the diameter of forged steel rods within a production lot?**
(A) $\bar{x}$ Chart
(B) c-chart
(C) R-chart
(D) p-chart

6. **Which of the following chart types would be used to monitor the number of errors per page in a printed document?**
   (A) $\bar{x}$ Chart
   (B) p-chart
   (C) R-chart
   (D) c-chart

7. **If the average of the samples falls within the upper and lower tolerance limits, then**
   (A) The process is out of control
   (B) The process is unequivocally in control
   (C) The process is said to be normal
   (D) The process may or may not be in control

8. **p-charts are based on the**
   (A) Normal Distribution
   (B) Poisson Distribution
   (C) Binomial Distribution
   (D) Negative Exponential Distribution

Answers:

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

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;

ज्ञान-विज्ञान विमुक्तये

डॉ. सुरेन्द्र सिंह
संयुक्त सचिव
Dr. Surender Singh
Joint Secretary

सत्यमेव जयते

विश्वविद्यालय अनुदान आयोग
University Grants Commission
(शिक्षा मंत्रालय, भारत सरकार)
(Ministry of Education, Govt. of India)
बहादुरशाह ज़फ़र मार्ग, नई दिल्ली-110002
Bahadur Shah Zafar Marg, New Delhi-110002
दूरभाष Phone : कार्यालय Off : 011-23238865
ई-मेल E-mail : ssingh.ugc@nic.in

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

15 MAR 2021

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

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.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016
Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143
Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003
Phone: +91-11-2462-2156/2157/2158