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Syllabus 2022

CMA Student E - Bulletin

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA

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Message from the CHAIRMAN

Dear Students,

Warm greetings!

In the words of Mahatma Gandhi, "Happiness is when what you think, what you say, and what you do are in harmony."

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

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

As the Chairman of the Training & Educational Facilities Committee, I express sincere gratitude to all those who contribute to this noble cause. To those gearing up for the December 2023 term examinations, I encourage you to continue your revisions and make the most of the academic resources provided by the Directorate of Studies.

Always bear in mind, "Education is the most powerful weapon which you can use to change your future."

Best wishes,

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

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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
and Economic Laws (CEL)

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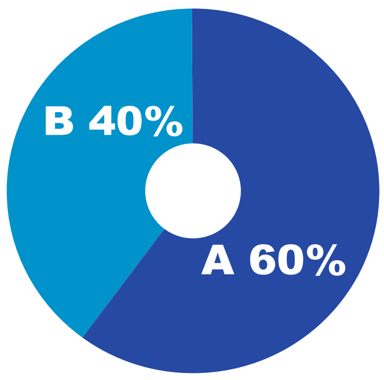
Your Preparation Quick Takes



Syllabus Structure

Section A: Corporate Laws **60%**

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

Company Capital

Choose the correct option in each of he questions.

1. A company has to keep KMPs on having paid up capital of Rs……. cr. or more:
   (a) 5
   (b) 10
   (c) 15
   (d) 20

2. In the first AGM after incorporation:
   a) no director shall retire
   b) two third directors shall retire
   c) one third directors shall retire
   d) all directors shall retire.

3. Interim dividend is decided and declared by:
   (a) Board of Directors
   (b) shareholders in AGM.
   (c) Audit committee
   (d) shareholders in EGM.

4. Unpaid dividend, after 7 years is transferred to:
   (a) Profit and loss account of the company
   (b) Investor Education and Protection Fund
   (c) Reserve Bank of India
   (d) none of the above

5. "financial statement' in relation to a company means:
   (a) A balance sheet as at the end of the financial year
   (b) A profit & loss account, for the financial year
   (c) Cash Flow Statement for the financial year
   (d) All of the above

6. Alternate director may be appointed if the original director is out of India for at least :
   a) One month
   b) two months
   c) three months
   d) four months

7. Books of accounts of a company, are normally, supposed to be kept at:
   a) registered office
   b) head office
   c) corporate office
   d) any where in India

8. All the financial statements including the consolidated financial statement shall required to be signed by:
   (a) the Chairperson of the Company, where he is authorized by the Board.
   (b) two Directors out of which one shall be Managing Director, if any.
   (c) Chief Financial Officer and Company Secretary of the Company, if required.
   (d) All of the above

9. Filling of Financial Statements are to be made with Registrar of Companies within………. days of Annual General Meeting.
   (a) 15
   (b) 29
   (c) 30
   (d) 40

10. Auditors' report is addressed to:
   (a) Board of Directors
   (b) Chairman of the company
   (c) shareholders of the company
   d) Registrar of Companies

Answers

1	2	3	4	5	6	7	8	9	10
b	d	a	b	d	c	a	d	c	c

GROUP: iii, PAPER: 14

STRATEGIC Financial Management (SFM)

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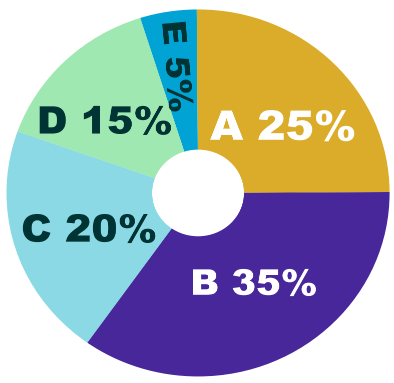
Your Preparation Quick Takes



Syllabus Structure

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

Strategic Financial Management

- **Capital Asset Pricing Model (Continued from Previous Issue)**

▪ **Usefulness of CAPM:**

CAPM is extremely helpful in assessing the expected rate of return of a security for the amount of systematic risk is bears. Accordingly, any security providing higher than the CAPM return is considered to be highly acceptable and vice-versa.

The graphical presentation of CAPM i.e. SML can also be used for this purpose. The securities which provide more than expected return are placed above SML and those provide less than expected return are placed below SML. Securities placed above the SML are considered to be undervalued and hence are recommended for buying.

▪ ***Some Applications of CAPM:***

Consider the following examples.

Question:

Calculate the expected rate of return of shares of RIL., when risk free rate of return equals 10%, the firm's beta equals 1.75 and the return on the market portfolio equals to 15%.

Solution:

$E(R_i) = R_F + \beta\,(R_M - R_F)$

$$\beta = \frac{COV\,(R_i, R_m)}{\sigma^2_m}$$

where, Cov (Ri,Rm) = Covariance between stock return and market return

and σ^2_m = Variance of market return

Consider the following example.

Question:

From the following information, calculate β (beta), and determine the expected rate of return, assuming Risk-free Return (R_F) =7% and Market Return (K_M) =14%

Month	Return on Security A (%)	Return on Market Portfolio (%)
1	10	12
2	6	4
3	12	11
4	7	6
5	-9	-11
6	11	15

Solution:

Month	Security A Return, R_A (%)	Market Return, R_M (%)	$(R_A - \bar{R}_A)$	$(R_M - \bar{R}_M)$	$(R_A - \bar{R}_A)\ (R_M - \bar{R}_M)$	$(R_M - \bar{R}_M)^2$
1	10	-12	3.8	-14.4	-54.72	207.36
2	6	4	-0.2	1.8	-0.36	3.24
3	12	11	5.8	8.8	51.04	77.44
4	7	6	0.8	3.8	3.04	14.44
5	-9	-11	-15.2	-13.2	200.64	174.24
6	11	15	4.8	12.8	61.44	163.84
	37	13			261.08	640.56

$\bar{R}_A$ = 37/6 = 6.16667 or 6.2
$\bar{R}_M$ =13/6 =2.16667 or 2.2

$$Cov(\bar{R}_A, \bar{R}_M) = \frac{\sum (RA - \bar{R}A)(RM - \bar{R}M)}{} = 261.08/5 = 52.22$$

$\sigma^2_M = 1/n\ \Sigma (R_M - \bar{R}_M)^2 = 1/6 \times 640.56 = 106.76$
$\beta = Cov(\bar{R}_A, \bar{R}_M)/\ \sigma^2_M = 52.22/106.76 = 0.489$
$E(R_i) = R_F + \beta\ (R_M - R_F)$
$= 7\% + 0.489\ (14\% - 7\%) = 10.423\%$

GROUP: iii, PAPER: 15

DIRECT TAX LAWS
and International Taxation
(DIT)

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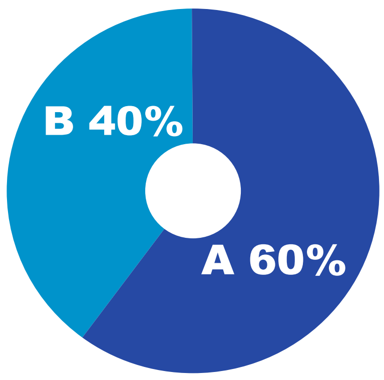
Your Preparation Quick Takes



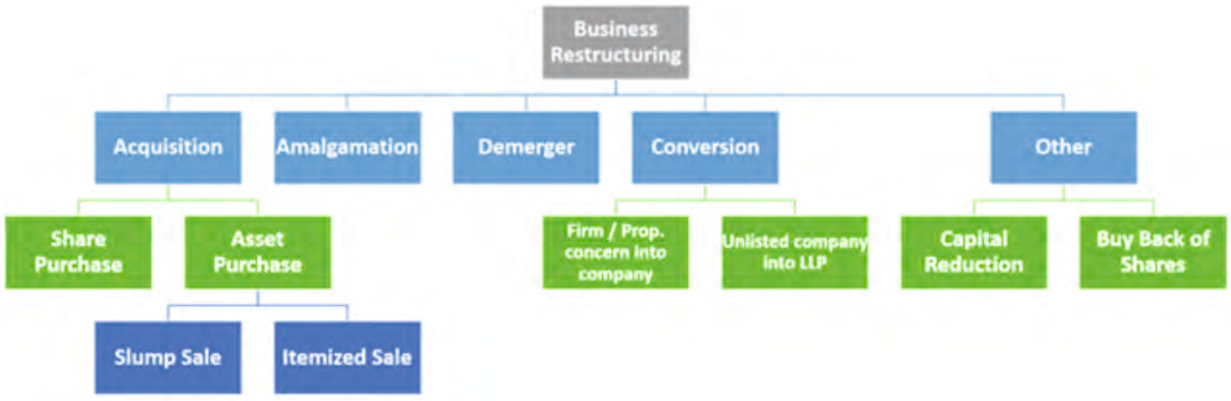
Syllabus Structure

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

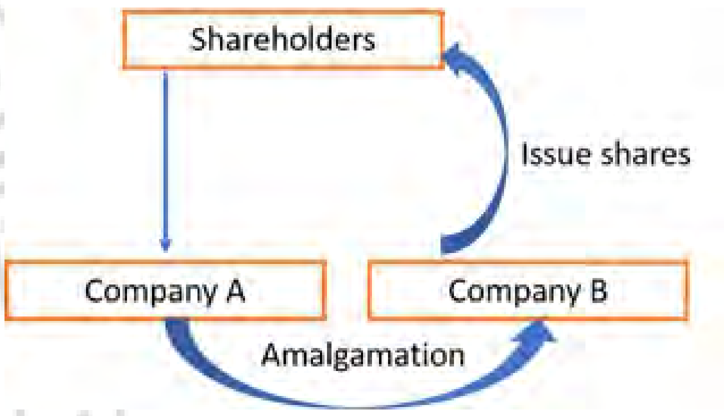
Section B: International Taxation **40%**

Amalgamation

Restructuring is term used for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Companies are resorting to acquisitions as a means to consolidate and grow rapidly in an ever changing business environment. As a result, there is an increase in the level of restructuring activity in various sectors. Change in ownership or operational structure transaction have tax implication. The purpose of a suitable business strategy for restructuring must increase efficiency, consolidate operations, increase market share, assist in turn around, increase market capitalization and create entry barrier for competitors. Proper tax planning in this regard shall reduce the cost of restructuring in this front. The chapter highlights the various tax aspect in hands of all concerned person.



Definition [Sec. 2(1B)]



Amalgamation (in relation to companies) means:

- the merger of one or more companies with another company; or
- the merger of two or more companies to form one company;

in such a manner that—

(a) all assets and liabilities of the amalgamating company or companies immediately before the amalgamation becomes the assets and liabilities of the amalgamated company;

(b) shareholders (both equity or preference) holding not less than 75% in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders (equity or preference) of the amalgamated company.

- Number of shares allotted to the shareholders of the amalgamating company by the amalgamated company is not relevant.
- Where C Ltd. merges with Z Ltd., in a scheme of amalgamation, and immediately before the amalgamation, Z Ltd. holds 20% of the share in C Ltd., the aforesaid mentioned condition will be satisfied if shareholders holding not less than $\frac{3}{4}$th (in value) of the remaining 80% of the shares in C Ltd., i.e., 60% thereof (3/4 x 80), become shareholders of Z Ltd., by virtue of the amalgamation. Where, however, the whole of the share capital of a company is held by another company, the merger of the two companies will qualify as an amalgamation within sec. 2(1B), if the other two conditions are satisfied [Circular 5P, dated 9-10-67]

Exceptions:

Following mergers shall not be treated as amalgamation -

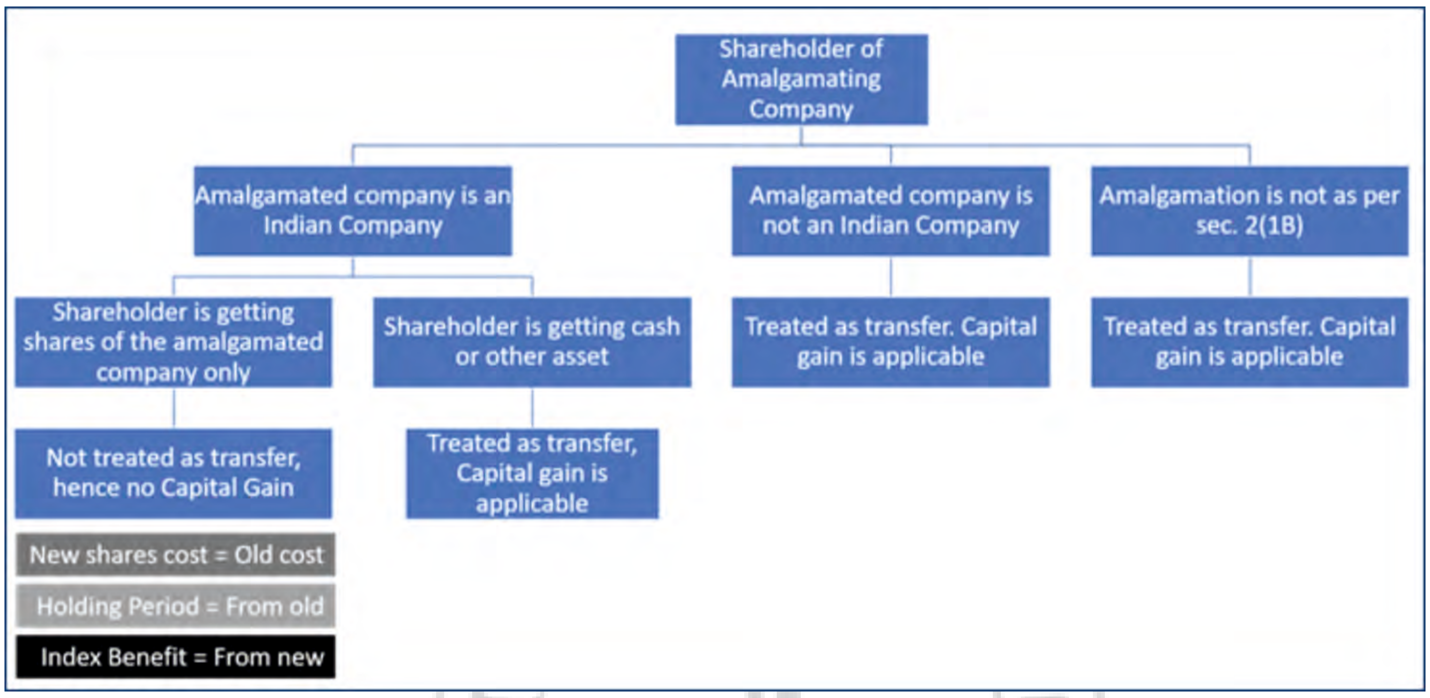
- Merger as a result of acquisition of the property of one company by another company pursuant to the purchase of such property by the other company; or
- Merger as a result of distribution of such property to the other company after the winding up of the first-mentioned company.

Amalgamation & Shareholder of amalgamating company

Effect of amalgamation on a shareholder are as under:

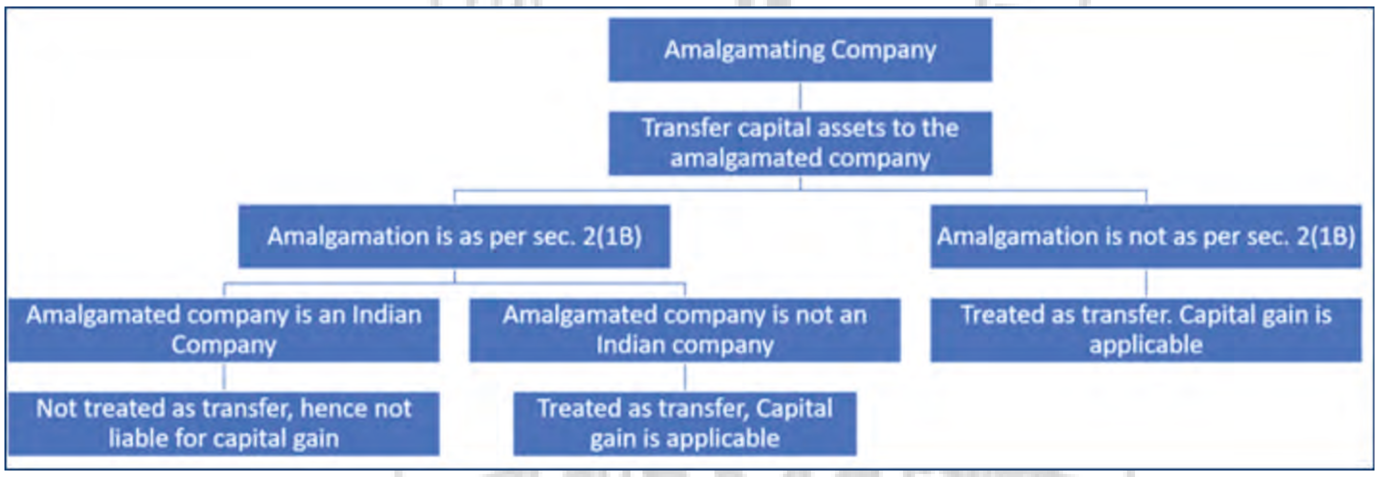
Transfer of shares of amalgamating company	As per sec. 47(vii), any transfer by a shareholder, in a scheme of amalgamation, of share(s) held by him in the amalgamating company is not treated as transfer and hence not liable to capital gain tax, if following conditions are satisfied: i. The transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company; and ii. The amalgamated company is an *Indian* company.

Cost of shares in amalgamated company	The cost of shares in amalgamating company shall be deemed to be the cost of shares in amalgamated company. [Sec. 49(2)]
Determination of nature of assets	To find whether shares in amalgamated company are long-term or short-term capital asset, the period of holding shall be calculated from the date when shares in the amalgamating company were acquired. [Sec. 2(42A)]
Indexation benefit	Indexation benefit shall be available from the year in which shares of amalgamated company were acquired by the assessee.



Amalgamation & amalgamating company

- As per sec. 47(vi), any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company is not treated as transfer (hence not liable to capital gain) provided the amalgamated company is an *Indian* company.
- If amalgamation does not satisfy condition of sec. 2(1B) **and** of sec. 47(vi), then exemption is not available.



- As per sec. 47(viab), any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company, (referred to in the Explanation 5 of sec.9(1)(i)), which derives, directly or indirectly, its value substantially from the share or shares of an Indian company, held by the amalgamating foreign company to the amalgamated foreign company, if
  a. at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
  b. such transfer does not attract tax on capital gains in the country in which the amalgamating company is incorporated.
- As per sec. 47(via), any transfer, in a scheme of amalgamation, of a capital asset being a share or shares held in an Indian company, by the amalgamating foreign company to the amalgamated foreign company is not treated as transfer (hence not liable to capital gain) provided:
  a) at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
  b) such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated.

<u>Taxpoint</u>

- *Such transfer is in a scheme of amalgamation by the amalgamating foreign company to the amalgamated foreign company.*
- *Transferred asset must be a capital asset being a share or shares held in an Indian company.*
- *At least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company.*

➢ *Such transfer does not attract tax on capital gain in the country, in which the amalgamating company is incorporated.*

Amalgamation & amalgamated company

☸ **Value of non-depreciable capital assets for the purpose of capital gain**

- As per sec. 49(1), where a capital asset became the property of amalgamated (Indian) company in a scheme of amalgamation, the cost of acquisition of the asset to the amalgamated company shall be deemed to be the cost for which the previous owner (i.e., amalgamating company) of the property acquired it, as increased by the cost of any improvement of the assets incurred or borne by the previous owner or the assessee, as the case may be.
- It is to be noted that where non-depreciable asset was acquired before 1-4-2001, the cost of acquisition can be taken as cost of acquisition or fair market value of the asset as on 1-4-2001, at the option of the assessee.
- In determining the period of holding of such asset, period of holding of previous owner shall also be considered, however, indexation benefit is available from the year of amalgamation.

☸ **Value of depreciable asset for the purpose of business income**

- Where in any previous year, any block of assets is transferred by the amalgamating company to the amalgamated (Indian) company in a scheme of amalgamation, then, the actual cost of the block of assets in the case of the amalgamated company shall be the written down value of the block of assets as in the case of the amalgamating company for the immediately preceding previous year as reduced by the amount of depreciation actually allowed in relation to the said preceding previous year [Exp. 2 to sec. 43(6)]
- *Allocation of depreciation in the year of amalgamation*: The aggregate deduction, in respect of depreciation allowable to the amalgamating company and the amalgamated company in the case of amalgamation shall not exceed in any previous year the deduction calculated at the prescribed rates as if the amalgamation had not taken place and such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

☸ **Value of asset transferred as stock in trade**

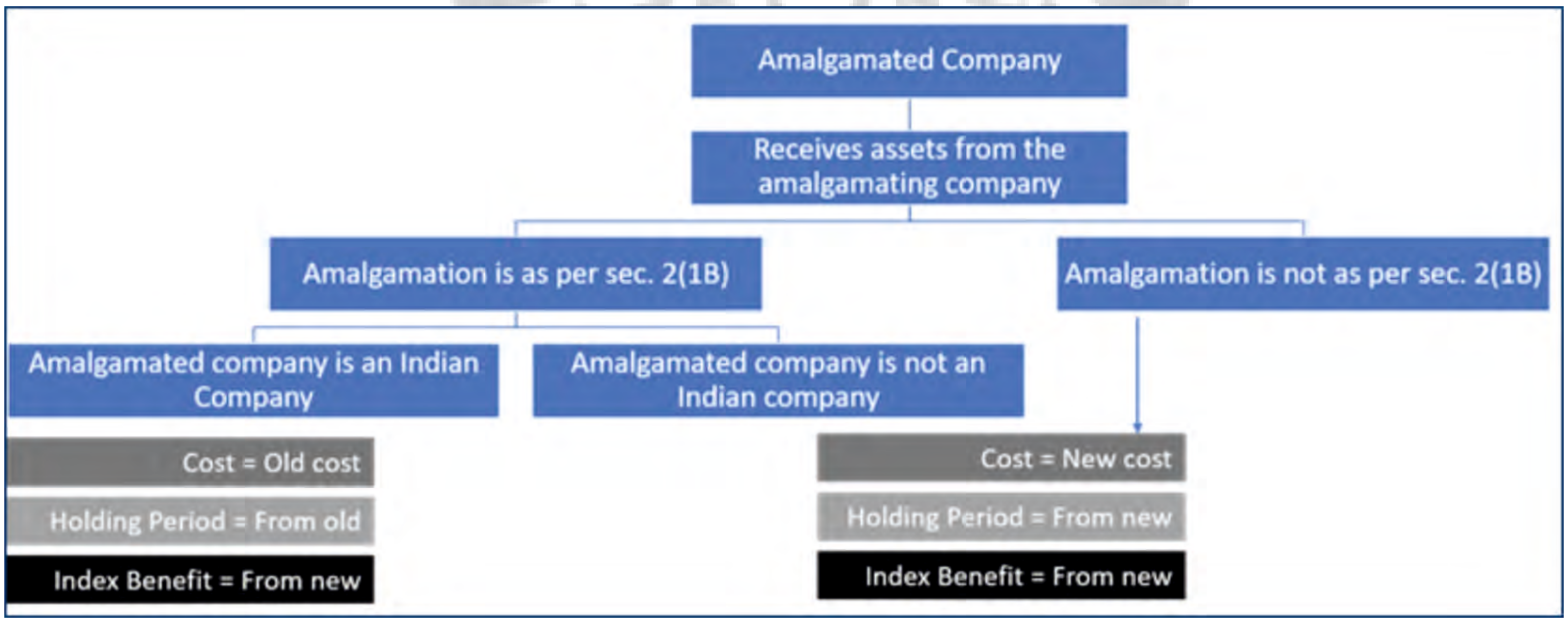
- Where an asset [not being an asset referred to in sec. 45(2)] which becomes the property of an amalgamated company under a scheme of amalgamation, is sold by the amalgamated company as stock-in-trade of the business carried on by it, the cost of acquisition of the said asset to the amalgamated company in computing the profits and gains from the sale of such asset shall be the cost of acquisition of the said asset to the amalgamating company, as increased by the cost, if any, of any improvement made thereto, and the expenditure, if any, incurred, wholly and exclusively in connection with such transfer by the amalgamating company [Sec. 43C(1)]

  Taxpoint: The provision is applicable where following asset of the amalgamating company is taken over by the amalgamated company as stock-in-trade at revalued price:

  a) Stock-in-trade

  b) Capital asset converted to stock-in-trade

  c) Capital asset
- • Sec. 43C is also applicable where an asset becomes the property of the assessee on the total or partial partition of HUF or under a gift or will or irrevocable trust.



☸ **Set-off and carry forward of business loss and unabsorbed depreciation [Sec. 72A]**

Applicable

1. There has been an amalgamation of a company owning -
   - an industrial undertaking; or

- a ship; or
- a hotel,

with another company; or

Taxpoint: *Industrial undertaking* means an undertaking engaged in—

- manufacture or processing of goods; or
- manufacture of computer software; or
- business of generation or distribution of electricity or any other form of power; or
- business of providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services; or
- mining; or
- the construction of ships, aircrafts or rail systems.

2. There has been amalgamation of a banking company with a specified bank.
3. There has been amalgamation of one or more public sector company or companies with one or more public sector company or companies; or
4. There has been amalgamation of an erstwhile public sector company with one or more company or companies, if the share purchase agreement entered into under strategic disinvestment restricted immediate amalgamation of the said public sector company and the amalgamation is carried out within 5 years from the end of the previous year in which the restriction on amalgamation in the share purchase agreement ends
   - *"Erstwhile public sector company" means a company which was a public sector company in earlier previous years and ceases to be a public sector company by way of strategic disinvestment by the Government;*
   - *"Strategic disinvestment" means sale of shareholding by the Central Government or any State Government in a public sector company which results in reduction of its shareholding to below 51% along with transfer of control to the buyer.*

Conditions to be satisfied

The accumulated loss shall not be set off or carried forward and the unabsorbed depreciation shall not be allowed in the assessment of the amalgamated company unless:

(a) The amalgamating company—

(i) has been engaged in the business, in which the accumulated loss occurred or depreciation remains unabsorbed, for three or more years;

(ii) has held continuously as on the date of the amalgamation at least $\frac{3}{4}^{th}$ of the book value of fixed assets held by it two years prior to the date of amalgamation.

(b) The amalgamated company—

(i) holds continuously for a minimum period of 5 years from the date of amalgamation at least $\frac{3}{4}^{th}$ of the book value of fixed assets of the amalgamating company acquired in a scheme of amalgamation;

(ii) continues the business of the amalgamating company for a minimum period of 5 years from the date of amalgamation;

(iii) fulfils such other conditions* as may be prescribed to ensure the revival of the business of the amalgamating company or to ensure that the amalgamation is for genuine business purpose.

* Conditions for carrying forward or set-off of accumulated loss and unabsorbed depreciation allowance in case of amalgamation [Rule 9C]

(*a*) The amalgamated company, owning an *industrial undertaking* of the amalgamating company by way of amalgamation, shall achieve the level of production of at least 50% of the installed capacity (i.e., the capacity of production existing on the date of amalgamation) of the said undertaking before the end of 4 years from the date of amalgamation and continue to maintain the said minimum level of production till the end of 5 years from the date of amalgamation.

Provided that the Central Government, on an application made by the amalgamated company, may relax the condition of achieving the level of production or the period during which the same is to be achieved or both in suitable cases having regard to the genuine efforts made by the amalgamated company to attain the prescribed level of production and the circumstances preventing such efforts from achieving the same.

(*b*) The amalgamated company shall furnish to the Assessing Officer a certificate in Form No. 62, duly verified by an accountant, with reference to the books of accounts and other documents showing particulars of production, along with the return of income for the assessment year relevant to the previous year during which the prescribed level of production is achieved and for subsequent assessment years relevant to the previous years falling within five years from the date of amalgamation.

Treatment

- The accumulated business (non-speculative) loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or, as the case may be, allowance for depreciation of the amalgamated company for the previous year in which the amalgamation was effected, and other provisions of this Act relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.
- In a case where any of the conditions are not complied with, the set off of loss or allowance of depreciation made in any previous year in the hands of the amalgamated company shall be deemed to be the income of the amalgamated company chargeable to tax for the year in which such conditions are not complied with.

Deduction of expenses incurred in case of amalgamation or demerger [Sec. 35DD]

Applicable to: An Indian company

Conditions

a) Assessee has incurred certain expenditure wholly & exclusively for the purpose of amalgamation or demerger.

b) No deduction has been claimed for such expenses under any other section.

Quantum of deduction: 1/5th of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.

Other Provisions

Capital Expenditure on Scientific Research [Sec. 35(5)]: Provisions of sec. 35 shall apply to the amalgamated company, as it would have been applied to the amalgamating company, if the latter had not transferred such asset.

Telecom or spectrum licence: The amalgamated company or resulting company (being Indian company) as the case may be shall be entitled to claim deduction u/s 35ABB (or sec. 35ABA) for the residual period as if the amalgamating or demerged company had not transferred the licence.

Amortisation of Preliminary Expenses: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) shall be entitled to claim deduction u/s 35D for the residual period as if the amalgamation or demerger had not taken place.

Amortisation of expenditure incurred under VRS: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) as the case may be, shall be entitled to claim deduction u/s 35DDA for the residual period as if the amalgamation or demerger had not taken place.

In nutshell, we can say that where amalgamated company is an Indian company, subject to other conditions, amalgamation is tax neutral.

Vol: 8, No.: 11.
November 2023, Issue

GROUP: iii, PAPER: 16

STRATEGIC
Cost Management (SCM)

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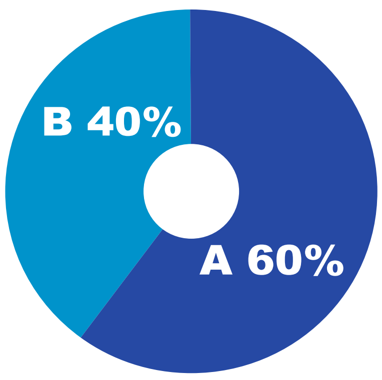
Your Preparation Quick Takes



Syllabus Structure

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

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

Cost Aggregate Propositions for IndiGo

1.00: Introduction

The fundamental perception is that 'Cost Aggregate' refers to the sum of Operating Expenses and Factor Costs; and that Cost Aggregate constitutes the Middle-Line of the financials. It is worth remembering the fact that Cost Ascertainment, Cost Analysis and Cost Control are the primary steps of Cost Management. The process, eventually, ushers in Cost Reduction, leads to Cost Optimisation and then, finally, brings in Cost Transformation. It is also worth recalling (the principles of Target Costing) that 'Topline' (Revenue) and 'Bottomline' (Profit) are governed and driven by market forces; thereby leaving (only) the 'Middle-Line' for the entrepreneurial controls.

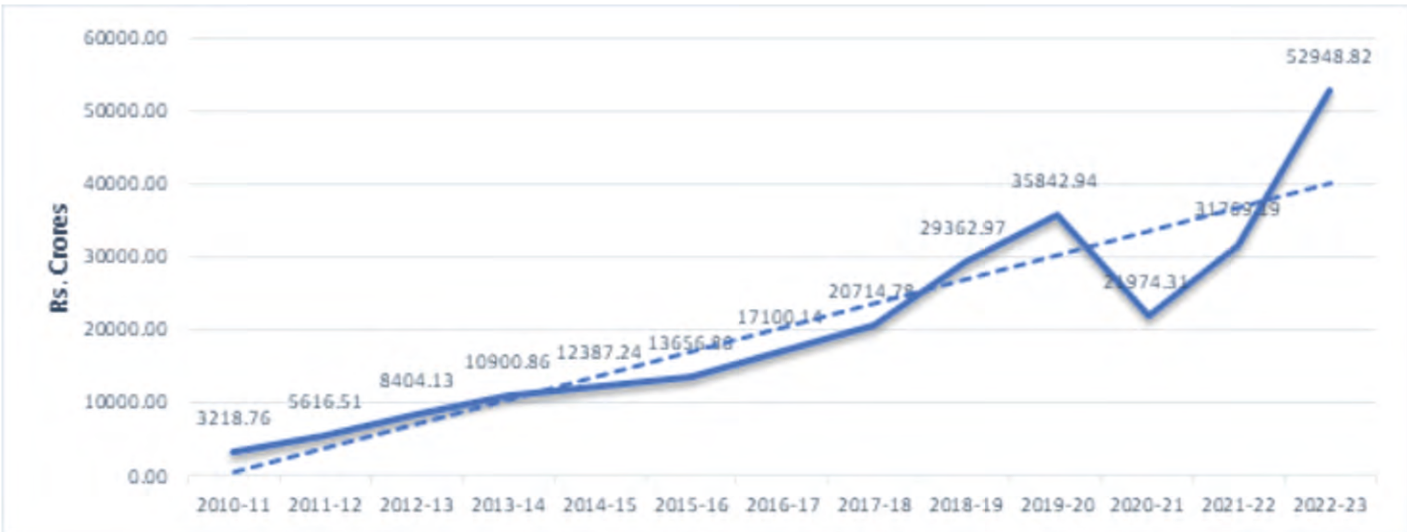
Macro dimensions of cost aggregate may be examined with the help of a couple of conceptual inventions and on the basis of the financials of IndiGo for the period from 2010-11 to 2022-23 (i.e., thirteen years).

2.00: Trend and Composition of Cost Aggregate

2.01: Trend of Cost Aggregate

Trend of Cost Aggregate of IndiGo over the thirteen-year period from 2010-11 to 2022-23 is presented by means of graph-1.

Graph-1: Trend of Cost Aggregate of IndiGo

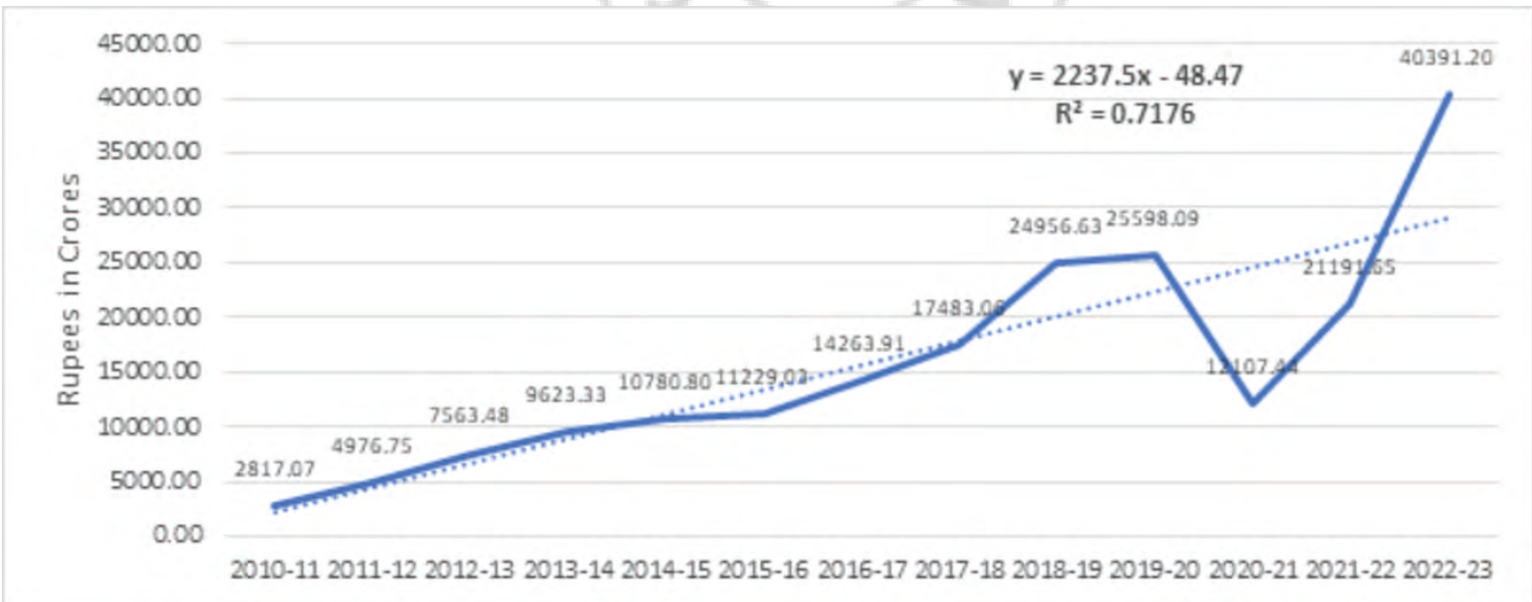


The graph portrays an increasing (and near linear) trend. The cost aggregate has gone up from Rs.3,218.76 crores in 2010-11 to Rs.52,948.82 crores (i.e., by 16.45 times) during thirteen-year period. The financials of the company reveal that Operating Income, during the same period, has gone up from Rs.3,806.26 crores Re.54,160.45 crores (i.e., by 14.23 times). The magnitude of increase in the cost aggregate (16.45 times) is higher in comparison to the level of increase (14.23 times) in operating income, with a resultant impact on the bottom-line margin.

2.02: Trend of Operating Expenses

Graph-2 depicts the trend of Operating Expenses of IndiGo for the period under review.

Graph-2: Trend of Operating Expenses of IndiGo (Rs. Crores)

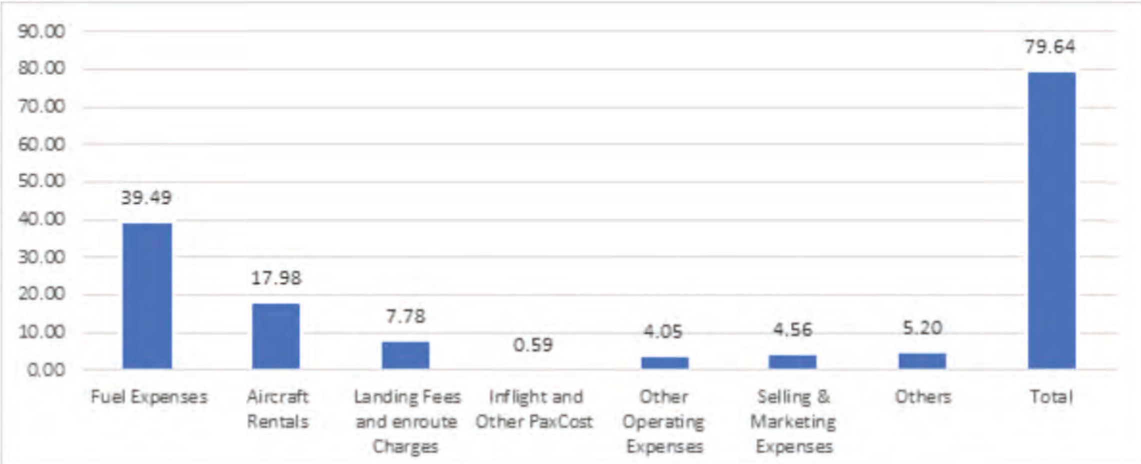


As may be seen from the graph, operating expenses have gone up from Rs.2,817.07 crores in 2010-11 to Rs.40,391.20 crores (i.e., an increase of 14.34 times) by 2023. The corresponding increase in operating income being 14.23 times, the apparent observation is that the increase in operating expenses is (nearly) in line with the increase in operating income.

The trend line is upward sloping and the linear equation computes to "y = 2237.5x - 48.47", and 'R^2 = 0.7176'. The linear equation is obviously, vitiated, by the COVID impact for the years 2020-21 and 2021-22. Going by the range of R^2, a macro inference could be that operating expenses, in general, tend to be variable in proportion to the operating income.

The trend of an element of cost becomes analytically comparable when expressed as percentage to a related variable. Operating Income may be considered as the relevant as also related variable with respect to the cost aggregate. Accordingly, Graph-3 shows the composition of the elementwise averages of Operating Expenses of IndiGo, expressed as percentage to operating income, for the thirteen-year period under review.

Graph-3: Composition of the Elementwise Averages of Operating Expenses (Expressed as % to Operating Income)

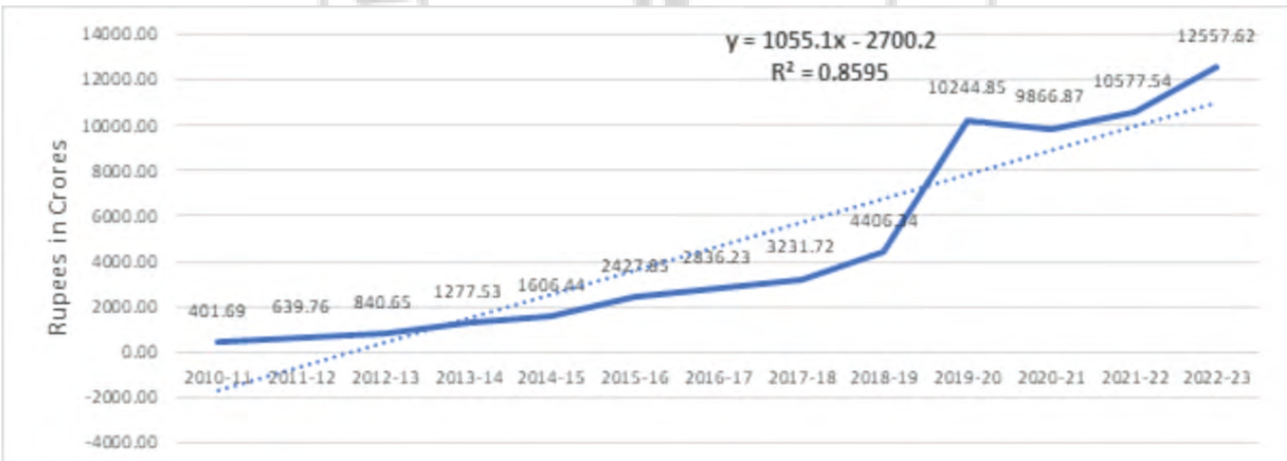


Graph-3 reveals that fuel expenses, at 39.49% of the operating income, account for the major share of the lot followed by aircraft rentals at 17.98%; landing fees and enroute charges at 7.78%; inflight and other pax cost at 0.59%; other operating expenses at 4.05%; selling & marketing expenses at 4.56% and others at 5.20%. The aggregate of the operating expenses works out to 79.64% of the operating income. Impliedly, operating expenses dominate the income disposition and are, mostly, variable by nature. However, these variable elements could contain fixed components in a small way.

2.03: Factor Costs

The trend of Factor Costs of IndiGo for the thirteen-year period is shown as graph-4.

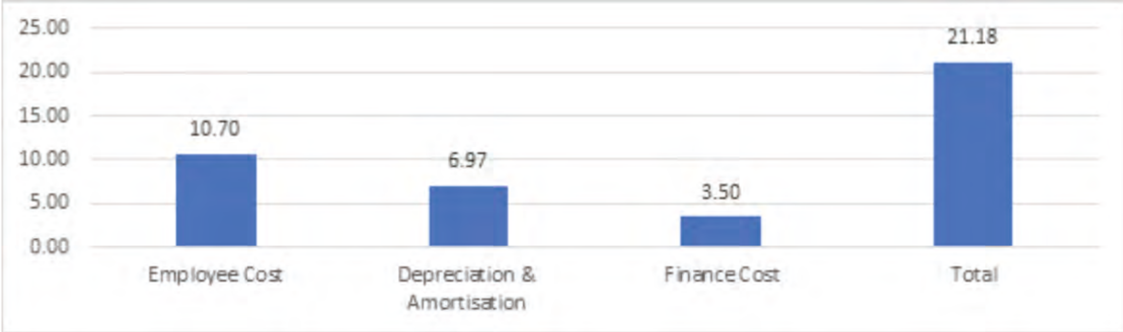
Graph-4: IndiGo – Trend of Factor Costs (Rs. Crores)



As may be noticed from Graph-4, factor costs have gone up from Rs.401.69 crores in 2010-11 to Rs.12,557.62 crores (i.e., an increase of 31.26 times) by 2023. The increase is highly disproportionate to the increase of 14.23 time evidenced in case of operating income. The revibrated inference is that factor costs, in general, tend to remain fixed. The trend line is upward sloping and the linear equation works out to "y = 1055.1x - 2700.2", and 'R^2 = 0.8595'. The COVID fiasco is quite visible in the trend.

Graph-5 the shows the composition of the elementwise averages of factor costs expressed as percentage to operating income.

Graph-5: IndiGo - Composition of the Elementwise Averages of Factor Costs (Expressed as % to Operating Income)



Graph-5 shows that employee cost, at 10.70% of the operating income, garners the major share of the factor costs followed by depreciation & amortisation at 6.97% and finance cost at 3.50%. The total of the factor costs amount to 21.18% of operating income. The inferred understanding is that about 21% of the operating income needs to be committed towards factor costs. However, these fixed elements do contain variable components in some smaller proportions.

3.00: Statistical Analysis

In order to visualise the cost behaviour and to segregate the variable and fixed components, elementwise statistical analysis of each of the elements of cost aggregate, expressed as percentage to operating income, has been carried out. The tools of coefficient of variation and linear equation have been used as the prime instruments. The average percentage of the element in relation to the operating income for the thirteen-year period, its standard deviation, coefficient of variation for the same, linear equation for the slope and R^2 have been derived. Table-1 shows the statistical data so computed.

Table-1: Statistical Analysis of Expenses of IndiGo

Serial	Element	Average	SD	CV (%)	Linear Equation (y=..)	R^2
A	Operating Expenses					
1	Fuel Expenses	39.49	7.67	19.41	-0.9544x + 46.171	0.2351
2	Aircraft Rentals	17.98	5.73	31.86	0.9647x + 11.228	0.4301
3	Landing Fees and enroute Charges	7.78	2.39	30.76	0.1355x + 6.8268	0.0487
4	Inflight and Other Pax Cost	0.59	0.39	66.13	0.0589x + 0.1749	0.349
5	Other Operating Expenses	4.05	2.10	51.81	-0.2106x + 5.5234	0.1529
6	Selling & Marketing Expenses	4.56	2.31	50.69	-0.5811x + 8.6265	0.959
7	Others	5.20	2.76	53.00	0.2836x + 3.2157	0.1606
8	Total of Operating Expenses	79.64	6.41	8.04	-0.3033x + 81.766	0.034
B	**Factor Costs**					
1	Employee Cost	10.70	3.46	32.30	0.4624x + 7.4676	0.2713
2	Depreciation & Amortisation	6.97	9.33	133.82	1.5988x - 4.2173	0.4451
3	Finance Cost	3.50	4.23	121.04	0.7686x - 1.8814	0.4996
4	Total of Fixed Expenses	21.18	16.58	78.28	2.8297x + 1.369	0.4419

Abbreviations: Average= Average for the thirteen-year period from 2010-11 to 2022-23; SD= standard deviation; CV = Coefficient of Variation

Explanations: Lower the CV lower the fluctuations and vice versa. Positive slope reflects upward trend whereas negative slope means downward trend.

On the basis of the data contained in table-1 as also after giving due credence to the financial performance for the year 2022-23 (being the latest year), each of the elements have been segregated into variable and fixed components and the feasible propositions have been drafted separately for variable costs and fixed costs. (*Feasible Propositions are considered as the prerequisites towards Cost Optimisation).*

Fuel expenses and aircraft rentals are totally variable by their intrinsic nature. The fact of variability is corroborated by the respective slopes of -0.9544x and 0.9647x. Even though the average for the fuel expenses works out to 39.49%, the actuals for 2022-23 happen to be 43.66%. Therefore, the feasible proposition for fuel expenses has been assessed as 40%. Similarly, though the average for the aircraft rentals works out to 17.98%, the actuals for 2022-23 happen to be 15.46%. Hence, the feasible proposition for aircraft rentals has been adjudged as 16.25%.

Landing fees and enroute charges are peculiar to the aviation industry and appear to be semi fixed. The slope of 0.1355x corroborates this characteristic. Although the average for the landing fees and enroute charges works out to 7.78%, the actuals for 2022-23 happen to be 6.73%. Hence, the feasible proposition, in the aggregate, for the element has been rationalised to be 7% of the operating income for 2022-23 (i.e., 54,160 crores). The multiple of 7% and the slope of 0.1355 works out to 0.95 (7 x 0.1355 = 0.95), and hence variable element has been approximated to be 1% and the balance of 6% computing to Rs.3,250 crores (54160 x 6% = 3250) has been considered as fixed.

Coming to inflight and other pax cost, the slope at 0.0589x is the least, and the CV at 66.13% is very high. The average for the 13-year period works out to 0.59%. However, the average for the 10-year non-COVID period from 2010-11 to 2019-20 computes to 0.43%. Further, magnitude wise the element is too small. Therefore, inflight and other pax cost has been tagged at 0.50% and assumed to be variable for the sake of convenience and control.

Moving on to other operating expenses, the average computes to 4.05% with a high CV of 51.81% and a negative slope of 0.2106x. At the same time, the actuals for 2021-22 is 1.65% and 1.64 for 202-23. Therefore, the aggregate of the element has been assessed to be 1.75%.

Variable component has been rounded off to 0.50% (even though 21% of 1.75% works out to 0.37) and Rs. 675 crores (1.25 % 54160 = 677 rounded off to 675) has been considered as the fixed component.

As is well known, Selling & Marketing Expenses are semi variable by character. Their average in the instant case works out to 4.56% with a high CV of 50.69% and a negative slope of 0.5811x. Therefore, the element has been assessed to be 4.00% in the aggregate; 2% variable and Rs. 1,085 crores (2 % 54160 = 1083 rounded off to 1085) fixed.

The element of 'others' is mixed in composition and semi fixed in nature. The average for this element works out to 5.20% with a high CV of 53% and a moderate & positive slope of 0.2836x. The actual for 2022-23 is 4.57%. Accordingly, the element has been rationalised to 4.75% in the aggregate; 1.25% variable and Rs. 1,900 crores (3.50 % 54160 = 1896 rounded off to 1900) fixed.

The sensitive element of employee cost is semi fixed in nature. The average for the element computes to 10.70% with a moderate CV of 32.30% and a fair & positive slope of 0.4624x. The actual for 2022-23 being 7.93%, the element has been tagged to a containable 8.25% in the aggregate; 3.75% variable and Rs. 2,440 crores (4.50 % 54160 = 2437 rounded off to 2440) fixed.

By its very nature and as also in character, depreciation & amortisation tend to remain fixed and hence the same has been frozen at Rs.5,100/- crores of 2022-23 level.

The element of finance cost, being a combination of interest on term loan (which is mostly fixed) and interest on working capital (which tends to be variable), is complex in character. The average for this element turns out to 3.50% with the next highest CV of 121.04% and a & positive slope of 0.7686x. Assuming better performance ahead, the element of finance cost has been pegged to a 3.50% in the aggregate; 1.75% variable and Rs. 950 crores (1.75 % 54160 = 948 rounded off to 950) fixed.

4.00: Feasible Propositions

Table-2 presents the feasible propositions that have been figured out for a (relevant) range up-to an annual 'Operating Income' of sixty thousand crores.

Table-2: Feasible Propositions of Cost Aggregate of IndiGo

Serial	Element	Assumed Behaviour	Feasible Propositions	
			VC (%)	**FC (Rs. Crores)**
A	Operating Expenses			
1	Fuel Expenses	V	40.00	-
2	Aircraft Rentals	V	16.25	-
3	Landing Fees and enroute Charges	SF	1.00	3250
4	Inflight and Other Pax Cost	V	0.50	-
5	Other Operating Expenses	SF	0.50	675
6	Selling & Marketing Expenses	SV	2.00	1085
7	Others	SF	1.25	1900
8	Total of Operating Expenses		61.50	6910
B	Factor Costs			
1	Employee Cost	SF	3.75	2440
2	Depreciation & Amortisation	F	-	5100
3	Finance Cost	SV	1.75	950
4	Total of Factor Costs		5.50	8490
C	Total of Cost Aggregate (A+B)		67.00	15400

Abbreviations: VC= Variable Costs; FC= Fixed Costs; V= Variable; F=Fixed; SV= Semi Variable; SF- Semi Fixed

On the basis of the propositions contained in table-2, the financial performance of IndiGo at a level of an Operating Income of Rs.60,000 crores may be estimated as follows:

A. Operating Income = Rs.60,000 cr.
B. Variable Costs at 67% = Rs. 40,200 cr.
C. Contribution (A-B) = Rs. 19,800 cr.
D. Fixed Costs = Rs. 15,400 cr.
E. Operating Margin (C-D) = Rs. 4,400 cr.

It may, thus, be inferred that an Operating Margin of Rs.4,400/- crores can, comfortably, be targeted by IndiGo at a level of Rs.60,000 crores of Operating Income.

5.00: Quick Take

The above analysis has been carried out, exclusively, on the basis of facts and figures contained in the relevant annual reports of IndiGo. In order to ensure symmetry in comparison and analysis, the figures have been regrouped and recast, wherever considered necessary. It is the CMA forte that has enabled invention of certain concepts during the process of this analysis.

Resources: Annual Reports of IndiGo for the relevant years.

GROUP: iv, PAPER: 17

COST

and Management Audit (CMAD)

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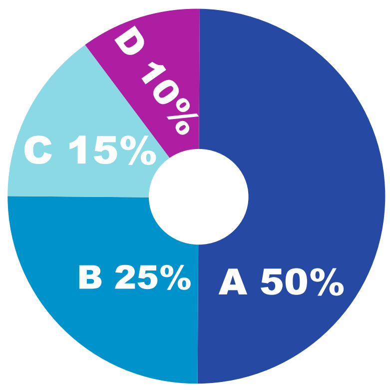
Your Preparation Quick Takes



Syllabus Structure

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

Cost and Management Audit

Case Study on Inventory accumulation

Auditors of the Company provided with the following background and they are supposed to review the situation. Post review, they are to suggest the broad action plan to management to pre-empt the accumulation possibility in future.

Background

Unfortunate Limited with three Plants located at Uphill, Downhill and Hill. All the Plants are pretty old, except Hill Plant. Hill Plant started operation since 2012. The Management is now facing a huge Working Capital blockage in Inventory worth Rs. 666 Crores. Annual turnover hovers around Rs.5000 Crores.

Highest accumulation reported by the new Plant i.e worth Rs.355 Crores, out of the three. The Company having a valuation policy. As per Policy, more than 5 year old inventory to be value at 10% of cost and balance at Cost. Slow and Non-moving inventories are categorised for holding over 5-years. In last 8 years, no liquidation action for accumulated inventory was considered by the Management.

Management wants that IA Dept. to point out reasons for accumulation and necessary steps to pre-empt possibility of further accumulation. Moreover, steps for unlocking value also need to be decided as per guidance from IA Dept. The Report to be submitted by 31st October 2023.

Findings and Root causes

- Lack of control over Project surplus items – accumulated value Rs. 22 Crores.
- Stock position of one Plant is not visible to other Plant/s. Uphill continuously procuring 11 such items, which are not in use since last 7 years at Downhill Plant. Such accumulation at Downhill worked out to Rs.44. Crores.
- On introduction of four new products viz. NP, PN, P and N in 2018 at all the three Plants simultaneously; the Raw Materials of earlier blockbuster Products namely BP, OP, HP, GP remained at hand. Accumulated value stood at Rs. 55 Crores.
- Pumps, Motors, Generator, Power House etc. received as replacement against failed Equipment within 'Warranty Period', considered in Books as fresh procurement. Value of such wrong entries worked out to Rs. 33 Crores.
- Physical verification reveled, Material and Spares having book value amounting to Rs. 22 Crores not in existence. Last issue date was recorded in ERP Database not even more than 3 years old. We are informed by Stores In-charges of respective locations that the same items recoded as missing, mishandled.
- Storage of raw materials was to be made properly. We have noticed, huge piles of Raw Materials in mixed-up condition. Segregation and recovery is remote and can't be used used in production due to quality, performance will not match expectations. As per Book records, value of such mixed-up inventory worth Rs. 44 Crores. The item codes found in mixed-up condition, was inwarded frequently and used in Production.
- Undefined Stock level (Minimum, Maximum, Re-order and Average), causing accumulation. Based on average annual consumption level, at least 111 item Codes having more than 4-years inventory at hand valuing Rs.222 Crores (each item code holding more than Rs.1.5 Crores each).
- Spare Parts worth Rs.55 Crores not recorded in Books as Inventory, shown as transit for more than two years. Advance payment to Vendors already made for the same.
- Material Sent for Outside Processing (MASOP) worth Rs. 88 Crores, yet to be accounted, despite aged over 3-years.

As part of our review process, we have circulated the presentation with necessary documents and discussed at length the 'Actionable Points'. The 'Actionable Points' are circulated separately.

Action Plan

- For easy identification and making plan for use in future Projects/requirement, Project surplus items need to be codified separately with regular item code reference in ERP.
- View only access to be given to all who are authorized for releasing PR (Purchase Requisition) for assessing stock of the required item Code at other locations. Excess stock at other locations needs to be reckoned before Ordering for liquidation and usage in other location.
- New Product introduction to be made only after getting clarity /clearance from COO on consumption of RMs required for the old FG. If required, sometime gap may be fixed for the purpose.
- Necessary rectification/value adjustment to be carried out for replaced item received against Warranty.
- Periodical physical verification process needs to be strengthened to avoid 'surprise' w.r.t missing items. Movement of men, vehicles through security gate requires special attention to preempt possibility of theft.
- Identified storage location for bulk items, Bins for Spares to be created to avoid mix-up. Necessary wall, dividers to be made

available for proper storage.

- Average consumption trend with max. safety cushion for order time lag of a month to be considered for Order level. Inventory levels to be fixed for all items.
- In-transit and returnable items to be investigated for proper resolution. Maximum period of 60 days from the issue date to be allowed for closing the matters appropriately.

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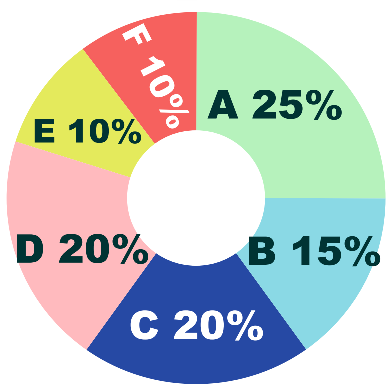
GROUP: iv, PAPER: 18

CORPORATE Financial Reporting (CFR)

Your Preparation Quick Takes



Syllabus Structure

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

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

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

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

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

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

Corporate Financial Reporting

1. Introduction

Financial Reporting of corporate entities are regulated by the laws of the country and guided by the GAAP of the country and by the adopted or converged IFRS. In addition to the financial reporting focused to the investors, in last few decades many other formats of reporting relevant for all the stakeholders encompassing Environmental, Social and Governance (ESG) aspects have been developed by national and international initiatives.

The status of these other formats of reporting is mostly voluntary and informal in many developing economies including India. These recent developments in corporate reporting includes reporting of

- BRSR
- CSR
- ESG
- IR
- Triple Bottom Line and Quadruple Bottom Line

However, in India Corporate Social Reporting (CSR) and (2) Business Responsibility and Sustainability Reporting (BRSR) have been made mandatory for certain corporate entities while they remain voluntary for other entities.

In the August 2023 issue we discussed on CSR and in the current issue we shall take up BRSR for discussion.

2. The background of BRSR

In 2009 the original Business Responsibility Reporting (BRR) guidelines were framed by the Ministry of Corporate Affairs (MCA). BRR served as a platform upon which a ESG reporting framework having much broader scope could be developed. In 2012, the Securities Exchange Board of India (SEBI) passed a circular amongst the top 100 companies based on market capitalization, making it mandatory for firms to report their ESG initiatives. BRR has to be filed as part of their annual reports based on nine principles of National Voluntary Guidelines (NVG).

In 2016, after signing a memorandum of understanding (MoU) with Global Reporting Initiative (GRI), the mandate was extended to top-500 BSE listed companies.

SEBI vide its gazette notification dated 26.12.2019 issued Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2019 extending the applicability of BRR to top 1000 listed entities based on market capitalization from the requirement of top 500 listed entities.

3. The promulgation of BRSR

SEBI through a notification dated 5 May 2021 has made amendments to certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR).

Among various amendments, one relates to discontinuance of the requirement of submitting BRR by listed companies after FY2021-22. As per the notification, companies would be required to submit a new report on ESG parameters, namely Business Responsibility and Sustainability Report (BRSR) in the following manner

- **Mandatory from FY2022-23**: For top 1,000 listed companies by market capitalisation
- **Voluntary for FY2021-22:** For top 1,000 listed companies by market capitalisation
- **Voluntary for other companies:** Listed companies (other than top 1,000) and companies which have listed their specified securities on the Small and Medium Enterprises (SME) exchange may voluntarily submit BRSR in place of BRR effective from FY2021-22 onwards.

Those listed entities which prepare and disclose sustainability reports (as part of annual report) based on internationally accepted reporting frameworks such as Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), can cross-reference the disclosures made under such framework to the disclosures sought under the BRSR. Further, in case the data sought in the reporting format is already disclosed in the annual report, the listed entity can provide a cross-reference to the same.

Thus, an entity need not disclose the same information twice in the annual report. However, the entity should specifically mention the page number of the annual report or sustainability report where the information sought under the BRSR format is disclosed as part of the report prepared based on internationally accepted reporting framework.

4. **Contents of BRSR**

There are three sections (A, B and C) in the format and guidance note. [ANNEXURE I and II to SEBI Circular]

Section A: General disclosures: The objective of this section is to obtain basic information about the company – size, location, products, number of employees, CSR activities, etc.

Section B: Management disclosures: In this section, the company is required to disclose information on policies and processes relating to the NGRBC Principles concerning leadership, governance, and stakeholder engagement.

Section C: Principle-wise disclosures: Responses to this section indicate how a company is performing in respect of nine Principles of the National Guidelines on Responsible Business Conduct, 2018 (NGRBC).

The information has been divided into two types:

(i) Essential indicators (mandatory for the concerned companies)
(ii) Leadership indicators (voluntary for all)

5. **The Nine Principles of the NGRBC:**

PRINCIPLE 1 Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable.
PRINCIPLE 2 Businesses should provide goods and services in a manner that is sustainable and safe
PRINCIPLE 3 Businesses should respect and promote the well-being of all employees, including those in their value chains
PRINCIPLE 4: Businesses should respect the interests of and be responsive to all its stakeholders
PRINCIPLE 5 Businesses should respect and promote human rights
PRINCIPLE 6: Businesses should respect and make efforts to protect and restore the environment
PRINCIPLE 7 Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent
PRINCIPLE 8 Businesses should promote inclusive growth and equitable development
PRINCIPLE 9 Businesses should engage with and provide value to their consumers in a responsible manner.

Thus, BRSR acts as an effective mode of communicating a company's non-financial disclosures of ESG initiatives.

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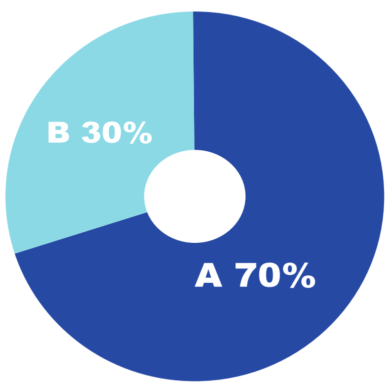
GROUP: iv, PAPER: 19

INDIRECT TAX

Laws and Practice (ITLP)

Your Preparation Quick Takes



Syllabus Structure

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

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

IMPORTANT CONCEPTS UNDER INDIRECT TAXS LAW & PRATICE

GST

1. **Introduction to Goods and Services tax:-**
   - Includes understanding the concept of GST.
   - Advantages and the need for implementation.

2. **Constitution provisions:-**
   - Studying the constitutional provisions relating to GST.
   - The distribution of powers between the centre and states and the role of the GST council.

3. **Levy and collection of GST:-**
   - Understanding the levy and collection of GST.
   - The taxable Event
   - Various types of supplies
   - The provisions related to composite and mixed supplies.

4. **Input Tax Credit:-**
   - Learning about the provisions related to input tax credit.
   - Conditions, eligibility, blocked credits and utilization of credits

5. **Registration under GST:-**
   - Exploring the registration process under GST.
   - The types of registration
   - Mandatory and voluntary registration.
   - The documents required.

6. **Time, value and place of supply:-**
   - Understanding the provision related to the time, value & place of supply under GST.
   - The rules for determining the time of supply the valuation of goods and services.
   - Place of supply

7. **GST Returns:-**
   - Studying the various types of GST returns.
   - Their due dates and the procedures for filing returns
   - Online filing and reconciliation of returns.

8. **Payment of tax:-**
   - Learning about the payment of GST
   - Provisions related to electronic tax liability register tax payment, TDS and TCS.

9. **Returns and Assessments:-**
   - Understanding the provisions related to assessments under GST.
   - Self – assessment, provisional assessment and best judgment assessment

10. **GST audit and Annual returns:-**
    - Exploring the provisions related to GST audit and the filing of annual returns
    - The applicability procedures and penalties for non-compliance

11. **Offenses and penalties:-**
    - Learning about the offenses and penalties under GST.
    - The provisions related to tax evasion false statement.
    - Non-Compliance with GST provision.

12. GST Practitioner:-

- Understanding the role and responsibilities of a GST practitioner.
- Registration, authorization, and representation before authorities

13. E-Commerce and GST:-

- Studying the provisions related to e-commerce and GST.
- Supply through e-commerce operators, tax collection at sources and reverse charge mechanism

14. Transitional provisions:-

- Exploring the transitional provisions under GST.
- The provision related to input tax credit, stock transfers and transition from existing taxes.

15. Anti-profiteering provisions:-

- Learning about the anti-profiteering provision under GST.
- The mechanism for addressing the issue of profiteering and the national anti-profiteering authority.

CUSTOMS ACT:-

Introduction:-

(i) Definitions of various terms related to customs, such as goods, important goods exporter, importer duties, customs values etc.

(ii) Rules and regulations regarding the clearness of goods through customs, including the inspection, examination and release of goods.

(iii) Power and responsibilities of customs officers, enabling them to conduct searches, seizures, and arrest in case of suspected illegal activities..

(iv) Remission of duties.

Valuation: - Valuation of imported and exported goods:-

Baggage rules and courier/post procedures:-

(i) Baggage classification
(ii) Determination of rate of duty
(iii) Temporary Detention and bonafide baggage
(iv) General free allowance
(v) Procedure for courier/post.
(vi) Import of Samples.

Warehousing Processors:-

(i) Introduction
(ii) Manufacture and other operations in warehouse.
(iii) Licensing of public, private and special ware housing.
(iv) Clearance of warehoused goods.

Duty Drawback: -

(i) Types of duties drawbacks
(ii) Re-export of imported by post
(iii) Negative list of duty drawback
(iv) Interest on drawback amount.

Foreign trade policy: -

(i) Objective of FTP: - To promote exports, facilitate imports.
(ii) Export promotion schemes like advance authorization, MEIS and SEIS
(iii) Duty exemptions like EPCG, DFTA, deemed exports.
(iv) Export promotion councils
(v) Special Economic zones.
(vi) Compliance and enforcement
(vii) New scheme RODTEP

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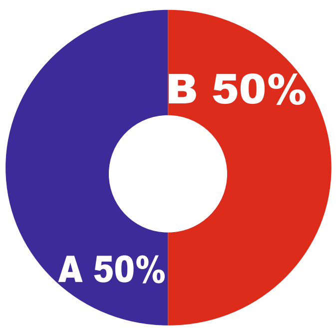
STRATEGIC

Performance Management and Business Valuation (SPMBV)

Your Preparation Quick Takes



Syllabus Structure

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

Module 7: Discounted Cash Flow Analysis (DCF) and Other Important Valuation Methods

SLOB Mapped against the Module:
To develop detail understanding on methods of valuation, assessing qualitative and quantitative factors affecting valuation, identifying which method to apply in respective circumstance.

Focus : Valuation Methods – a primer
Business valuation involves determining the worth of a business, and various methods are employed based on factors such as the business type, industry, and the purpose of the valuation. Below are several common valuation methods:

1. Asset-Based Methods:
- Book Value: This method assesses a business's value by subtracting liabilities from assets.
- Adjusted Net Asset Method: Similar to book value, this method considers fair market values by adjusting the values of assets and liabilities.

2. Income-Based Methods:
- Discounted Cash Flow (DCF): This approach estimates the present value of future cash flows by forecasting and discounting them back.
- Capitalization of Earnings: This method divides expected annual earnings by the capitalization rate to determine business value.

3. Market-Based Methods:
- Comparable Company Analysis (CCA): Compares the business to publicly traded companies for valuation multiples.
- Comparable Transaction Analysis (CTA): Compares the business to recent private company transactions to derive valuation multiples.

4. Hybrid Methods:
- Guideline Public Company Method (GPCM): Utilizes valuation multiples from publicly traded companies, adjusting for the private company's specifics.
- Guideline Transaction Method (GTM): Similar to GPCM but uses multiples from comparable private company transactions.

5. Owner's Benefit Methods:
- Seller's Discretionary Earnings (SDE): Focuses on owner's earnings, adding back certain expenses not applicable under new ownership.
- Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA): Measures operating performance by examining earnings before non-operating expenses.

6. Market Capitalization:
- For publicly traded companies, market capitalization is calculated by multiplying the current share price by the number of outstanding shares.

The choice of method depends on factors such as business characteristics and the purpose of the valuation. Often, a combination of methods is used for a comprehensive assessment, and seeking the expertise of financial professionals is common to ensure accuracy and objectivity in the valuation process.

The Discounted Cash Flow (DCF) methodology, revered for its meticulous financial analysis, serves as a prominent valuation technique employed to ascertain the inherent value of an investment. The foundational principle of DCF posits that the current value of money surpasses that of an equivalent sum in the future, given the potential for investment and subsequent returns. A detailed breakdown of the DCF method unfolds as follows step by step:

1. Cash Flow Projections:
- Begin by estimating the anticipated future cash flows arising from the investment, encompassing both operational and non-operational cash inflows.

2. Terminal Value:
- Ascertain the terminal value, representing the investment's worth at the conclusion of the explicit forecast period. This valuation is often determined through methods like the perpetuity growth model.

3. Discount Rate:
- Determine the appropriate discount rate, often termed the discount or hurdle rate. This rate reflects the time value of money and

aligns with the inherent risk associated with the investment. Typically, it is based on the cost of capital for the relevant project or entity.

4. Discounting Cash Flows:
- Proceed to discount each projected cash flow, including the terminal value, back to its present value using the chosen discount rate. This process involves considering the present value of money over time.

5. Summation of Present Values:
- Aggregate the present values of all projected cash flows, including the terminal value, to arrive at the total present value of the investment.

6. Sensitivity Analysis:
- Conduct a thorough sensitivity analysis by adjusting key assumptions, such as the discount rate or cash flow projections. This aids in understanding how variations in these variables impact the overall valuation.

The resulting DCF value encapsulates the purported intrinsic value of the investment based on its envisioned future cash flows. It is crucial to acknowledge that the accuracy of the valuation hinges on the precision of cash flow projections and the appropriateness of the chosen discount rate. Furthermore, while DCF is a powerful method, its efficacy is enhanced when used in conjunction with alternative valuation techniques to provide a comprehensive view of the business entity's worth.

GROUP: iv, PAPER: 20 B

RISK MANAGEMENT

in Banking and Insurance (RMBI)

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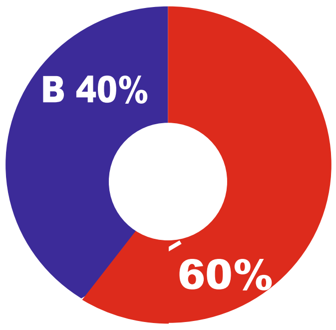
Your Preparation Quick Takes



Syllabus Structure

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

Section A-Risk Management in Banking

The following is the Synopsis of the Total Syllabus of the Captioned Paper.

- ✓ **Risk Management**: Risk management in Banking refers to Identifying, Assessing, and Mitigating Risks that Banks face in their day-to-day Operations. It is a Comprehensive Approach involving various Risk Management Tools, Techniques, and Methodologies to manage Risks Effectively. The objective of Risk Management in Banking is to Minimize the impact of Risks on the Bank's Operations, Financial Performance, and Reputation. A Bank may encounter a Variety of Dangers, and it is Critical to understand how Banks manage Risk. Thus, enabling Effective Risk Management in Banking becomes a Crucial aspect of the Stability and Sustainability of the Banking Sector.

- ✓ **Interest Rate Risk (IRR)**: Banks can manage IRR by either adjusting the composition of their Balance Sheet or Hedging with Derivatives. One approach is to match the Interest Rate Sensitivity of Assets and Liabilities in specific Re-pricing Buckets. This is effective for mitigating IRR when Net Interest Income Accounts for the Bulk of Profits. It is more difficult to implement when the Interest Rate Sensitivity of the Asset Portfolio is Inherently Different from that of the Funding Instruments.

- ✓ **Market Risk**: Market Risk encompasses the Risk of Financial Loss resulting from movements in Market Prices. Market Risk is Rated based upon, but not limited to, an assessment of the following Evaluation Factors:

  - The Sensitivity of the Financial Institution's Earnings or the Economic Value of its Capital to Adverse Changes in Interest Rates, Foreign Exchanges Rates, Commodity Prices, or Equity Prices.

  - The nature and Complexity of Interest Rate Risk Exposure arising from Non-trading Positions.

  - Where Appropriate, the Nature and Complexity of Market Risk Exposure arising from Trading and Foreign Exchange Operations.

- ✓ **Credit Risk**: Credit Risk refers to the Probability of Loss due to a Borrower's Failure to make Payments on any Type of Debt. Credit Risk Management is the practice of Mitigating Losses by assessing Borrowers' Credit Risk including Payment behaviour and affordability. This process has been a longstanding challenge for Banks / Financial Institutions.

  Continued Global Economic Crises, Ongoing Digitalization, recent developments in Technology and the increased use of Artificial Intelligence in Banking have kept Credit Risk Management in the Spotlight. As a result, regulators continue to Demand Transparency and other improved Capabilities in this Space.

- ✓ **Liquidity Risk**: Liquidity is a Bank's ability to meet its Cash and Collateral obligations without sustaining unacceptable Losses. Liquidity Risk refers to how a Bank's inability to meet its obligations (Whether Real or Perceived) threatens its Financial Position or Existence. Institutions manage their Liquidity Risk through effective Asset Liability Management (ALM).

- ✓ **Sovereign Risk**: Sovereign Risk is a Country's Probability of missing a debt obligation in its present Economic Status. Sovereign Risks come in many forms and pose a considerable challenge to the Banking System and a Country's Financial Stability in general. Strong Central Banks will impose Foreign Exchange Regulations to reduce the value of a Foreign Exchange Contract, thus Minimizing the Risk of default. Some Key Factors that influence a Country's Sovereign Risk include Natural Disasters, Political Instability, and refusal to comply with the Previous Payment Agreement.

- ✓ **Insolvency Risk**: Insolvency Risk is the real possibility that a Company may be unable to meet its payment obligations in a defined period of time-generally in a one-year horizon. It is also known as Bankruptcy Risk. Business Insolvency can originate from various factors such as Bad Cash Flow Management, Excessive Expenditures and even the failure of Clients. Recent Economic Calamities Illustrate that Insolvency Risk is not only the result of Bad Management-the Global Economic Recession of 2008 and the Global Covid-19 Pandemic of 2020 have shown how even the Best-run Companies can face Insolvency Risk through no fault of their own.

- ✓ **Operational Risk**: The Banking Industry faces unique Operational Risks due to the nature of its Operations and the Regulatory Environment. Banks must Manage Risks associated with Credit Operations, Market Activities, Liquidity Management, and Compliance with Regulatory requirements. Operational Risk includes the Risk of Loss caused by Failed Processes, Unskilled Employees, Inadequate Systems, or External Events. In many ways, Operational Risk can't be avoided as it is part of the daily business activity of Banks. In other ways, Banks can seek to reduce, mitigate, or accept operational risk.

- **Off-Balance Sheet Risk**: Off-balance Sheet activities include items such as loan commitments, Letters of Credit, Inland Guarantees and Revolving Underwriting Facilities. Banks are required to report off-balance sheet items at the foot note of the Balance Sheet. The use of off-balance sheet activities may improve earnings ratios because earnings generated from the activities are included in the income by way of Commission.

Section B-Risk Management in Insurance-40% Weightage

- **Basics of Insurance Business**: Insurance is an important part of our economy. Without the protection insurance affords us, we would have to spend more time and money protecting ourselves from the risks of loss and less time in enjoying life and pursuing goals. Basically, it means many people paying a little money to create a bigger pool of money so that anyone who is unfortunate enough to suffer a loss is reimbursed financially for that loss.

- **Insurance Intermediaries**: Insurance is a complex product representing a promise to compensate the insured or third party according to specified terms and conditions in the event of the occurrence of a covered contingency. In most insurance transactions there is usually an intermediary-an insurance agent (individual or corporate) or an insurance broker. Insurance intermediaries serve as a bridge between consumers (seeking to buy insurance policies) and insurance companies (seeking to sell those policies).

- **Products of Life Insurance**: There are various types of Life Insurance. Following are the most common types of life insurance plans available in India:

  - Term Life Insurance.
  - Whole Life Insurance.
  - Endowment Plans.
  - Unit-Linked Insurance Plans.
  - Child Plans.
  - Pension Plans etc.

- **Products of General Insurance**: Following are some of the types of General Insurance available in India:

  - Motor Insurance.
  - Home Insurance.
  - Fire Insurance.
  - Travel Insurance.
  - Health Insurance etc.

- **Details of Health Insurance**: Health insurance is an insurance product which covers medical and surgical expenses of an insured individual. It reimburses the expenses incurred due to illness or injury or pays the care provider of the insured individual directly. Like every kind of insurance policy, health insurance also helps to deal with the financial repercussions of an accident or emergency. Medicare or medical costs are rising year on year. While inflation in food and clothing is in single digits, Medicare costs usually escalate in double digits.

- **Risk in Insurance Business**: Insurance Risk refers to the possibility of something going wrong that would expose your business or the insurer to financial damages. Business risk and insurance risk often overlap. The insurance industry faces many pressures including very dynamic regulatory complexities, which presents companies with significant risks that impact financial and operational stability, and conversely, potential opportunities to embrace.

GROUP: iv, PAPER: 20 C

ENTREPRENEURSHIP and Startup (ENTS)

Dr. Ashish Kumar Sana
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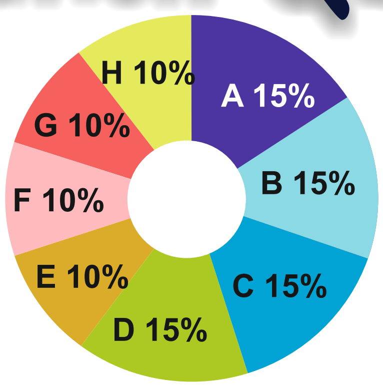
Your Preparation Quick Takes



Syllabus Structure

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

Entrepreneurship and Startup

Entrepreneurial Ecosystem

Entrepreneurial ecosystem is "a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory". It is the **network of human and institutional actors that start, support, fund, and promote new businesses in a community**.

Elements of Entrepreneurial Ecosystem

Since every community is different, the resources and connections needed for an entrepreneurial ecosystem to thrive will vary. But there are some common components or elements:

1. **Entrepreneurs: They are the ones who** set up a new business with their idea and the people who accompany them on their journey. Every entrepreneur has different skills and different fields of work.
2. **Human Capital:** Human capital and more broadly talent for (productive) entrepreneurship are multifaceted. It helps organizations grow better. Organizations will grow only if the right person brought into the business at the right time.
3. **New Knowledge:** People with knowledge and resources can be assets to the organization. It is required at every growing step of the organization and especially at the beginning.
4. **Networks:** Networks of entrepreneurs and their businesses provide an information flow, enabling an effective distribution of knowledge, labour and capital. Networks help with the ecosystem, venture capital, technologies, and new markets.
5. **Leadership:** Leading any organization or a team is not easy, but it is the most important one of the important skills of an entrepreneurial journey. Leadership provides guidance for and direction of collective action.
6. **Finance:** For new and small businesses, the availability and accessibility of financing is a crucial requirement for their survival and growth. Venture capital and startup investments require a crucial signal known as the finance aspect.
7. **Intermediary Services:** An ecosystem cannot run without intermediary services. Professional services (legal, accounting, real estate, insurance, consulting), supportive policies for entrepreneurs and community to connect and engage, with highly visible and authentic participants.
8. **Community:** A well-connected community of start-ups and entrepreneurs along with engaged and visible investors, advisors, mentors and supporters (indicated by high network density) is essential for ecosystem.
9. **Market:** The growth of markets for cutting-edge technology is necessary for the formation of entrepreneurial ecosystems. If entrepreneurs want to launch enterprises, the technology must produce market potential. Therefore, the growth of markets for cutting-edge technology is necessary for the formation of entrepreneurial ecosystems.

Government Policies and Business Ecosystem

Important government policies and ecosystem are as follows:

(i) Startup India Initiative

(ii) Startup India Seed Fund

(iii) SAMRIDH Scheme

(iv) ASPIRE

(v) Pradhan Mantri Mudra Yojana

(vi) Ministry of Skill Development and Entrepreneurship

(vii) ATAL Innovation Mission

(viii) eBIZ Portal

(ix) Support for International Patent Protection in Electronics and Information Technology

(x) Multiplier Grants Scheme (MGS)

(xi) Credit Guarantee Fund Trust for Micro and Small enterprises

(xii) Software Technology Park (STP) Scheme

(xiii) The Venture Capital Assistance Scheme

(xiv) NewGen Innovation and Entrepreneurship Development Centre (NewGen IEDC)

(xv) Single Point Registration Scheme

(xvi) Stand Up India Scheme

Multiples Choice Questions

1. An entrepreneur who is the owner of more than one business is called:

(a) Portfolio Entrepreneur
(b) Intrapreneur
(c) Corporate Entrepreneur
(d) None of the above

Answer: (a)

2. Entrepreneurial culture and growth orientation consists of all of the following except:

(a) Encouraging employees to generate ideas
(b) Focusing on opportunities.
(c) The desire to grow at a slow and controlled pace.
(d) Being creative.

Answer (c)

3. Which of the following is a pillar of Start-up India?

(a) Handholding
(b) Funding support
(c) Industry-Academia partnership
(d) All of the above

Answer (d)

4. Positioning Process is the_____process which companies do to ensure strong, positive & stable positioning in a consumer's mind.

(a) continuous
(b) reiterative
(c) continuous and reiterative
(d) sporadic

Answer (c)

5. Choose the one which is not a type of Risk Monitoring –

(a) Voluntary
(b) Obligatory
(c) Interest rate risk
(d) Obligatory

Answer (c)

6. **Seed capital assistance is ___________**

   (a) A long-term assistance

   (b) Initial assistance

   (c) A help for the purchase of seeds d

   (d) A short-term assistance

Answer (b)

Examination TIME TABLE

Day & Date	Final Examination Syllabus-2016 & 2022 Time 10.00 a.m. to 01.00 p.m.
10 th December, 2023 (Sunday)	**(Group - III)** (Paper 13) Corporate Laws & Compliance **(Syllabus 2016)** Corporate and Economic Laws **(Syllabus 2022)**
11 th December, 2023 (Monday)	**(Group - IV)** (Paper 17) Corporate Financial Reporting **(Syllabus 2016)** Cost and Management Audit **(Syllabus 2022)**
12 th December, 2023 (Tuesday)	**(Group - III)** (Paper 14) Strategic Financial Management **(Syllabus 2016)** Strategic Financial Management **(Syllabus 2022)**
13 th December, 2023 (Wednesday)	**(Group - IV)** (Paper 18) Indirect Tax Laws & Practice **(Syllabus 2016)** Corporate Financial Reporting **(Syllabus 2022)**
14 th December, 2023 (Thursday)	**(Group - III)** (Paper 15) Strategic Cost Management – Decision Making **(Syllabus 2016)** Direct Tax Laws and International Taxation **(Syllabus 2022)**
15 th December, 2023 (Friday)	**(Group -IV)** (Paper 19) Cost & Management Audit **(Syllabus 2016)** Indirect Tax Laws and Practice **(Syllabus 2022)**
16 th December, 2023 (Saterday)	**(Group - III)** (Paper 16) Direct Tax Laws and International Taxation **(Syllabus 2016)** Strategic Cost Management **(Syllabus 2022)**
17 th December, 2023 (Sunday)	**(Group - IV)** Strategic Performance Management and Business Valuation **(Syllabus 2016)** (Paper 20) **(Syllabus 2022)** **Electives (Any one of three Papers) :** (i) Strategic Performance Management and Business Valuation **(P-20A)** (ii) Risk Management in Banking and Insurance **(P-20B)** (iii) Entrepreneurship and Start up **(P-20C**

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, MQPs, E-Bulletin Attend Online sessions

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

Message from

Directorate of Studies

Dear Students,

Greetings from the D.O.S.!!!

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

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

GOOD LUCK
Be prepared and be successful

Few Snapshots

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

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

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

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

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

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