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Syllabus 2022

CMA Student E - Bulletin

FINAL

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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,

Greetings!!!

"The future depends on what you do today." -Mahatma Gandhi

A spectacular achievement! Your determination, hard work, and skill have paid off with a new career as a profession! Heartfelt thoughts are sent your way. I want to congratulate those students who have cleared their Final examinations of the Institute. Congratulations on your well-deserved success! Hope you are attending your Pre Placement Orientation Programme (PPOP) and also grooming yourselves for appearing the Campus Placement . Those could not clear it; I suggest to pay more attention towards their studies because I believe that hard work never becomes unrewarded.

I want to draw your attention that you may please contribute write up on the topics or subject of your choice in the Students Monthly E-bulletin from November 2023 issue. Part informational, part query should summarize your manuscript which may offer an important opportunity to make an impact among the readers. Please forward your contributions in: studies@icmai.in

The Directorate of Studies had provided you all the meaningful tips for your success, try to accomplish by utilizing those and march forward for giving shape to a meaningful career ahead! We are so proud of you! May God continue to bless you and guide you on your life journey.

Best wishes for you all and as the country is passing through celebrations, I wish you too celebrate in your own ways,

CMA Vinayranjan P.
Chairman, Training & Education Facilities Committee
The Institute of Cost Accountants of India

KNOWLEDGE Update

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

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CORPORATE and Economic Laws (CEL)

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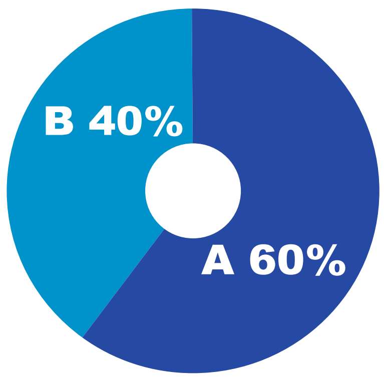
Your Preparation Quick Takes



Syllabus Structure

Section A: Corporate Laws **60%**

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

Company Capital

COMPANY CAPITAL- sources and types.

Any business including a company will have two sources of capital, i.e. own capital (equity) and loan capital.(long term credit),there can be a financial instrument which is converted from loan to equity. Normally equity is not converted into loan, though there is no legal bar.

Shares and Debentures

Shares and debentures are the main source of long term source of capital. Companies Act does not consider working capital as capital and therefore the restrictions relating to treatment of capital do not apply to working capital.

Shares defined

A share is defined as unit of ownership that represents an equal proportion of a company's capital. It entitles its holder (the shareholder) to an equal claim on the company's profits and an equal obligation for the company's debts and losses.

Two major types of shares are (1) **ordinary (equity) shares (common stock),** which entitle the shareholder to share in the earnings of the company as and when they occur, and to vote at the company's general meetings of shareholders, and (2) **preference shares (preferred stock**) which entitle the shareholder to a fixed predetermined rate of dividend but generally do not have voting rights. The dividend is payable only when the Company makes adequate profits. This kind of shares is preferred for both payment of dividend and the payment of principal (redemption) on liquidation. Otherwise also

preference shares have to be redeemed within 10 years (20 years in case of infrastructure companies)

Types of Share Capital:

There are various terms used in connection with the share capital of the company. They are as follows:

Authorized / Registered / Nominal Capital-

This is the Maximum Capital which the company can raise in its life time. This is mentioned in the Memorandum of the Association of the Company. It is also called Registered Capital or Nominal Capital. Authorised capital may be increased by altering the Memorandum of Association.

Issued Capital-

This is the part of the Authorised Capital which is issued to the public for Subscription i.e. any person to whom the invitation is made may subscribe for shares. Private limited companies can issue shares to its existing shareholders by way of rights issue or by way of giving them bonus shares or it can issue securities through private placements. The act of creating new issued shares is called issuance, allocation or allotment. After allotment, a subscriber becomes a shareholder. The number of issued shares is a subset of the total authorized shares.

Subscribed Capital-

The issued Capital may not be fully subscribed (applied for) by the investor/public. Subscribed Capital is that part of issued Capital for which applications are received from the public. In case applications are for more than the issued capital we call it oversubscription. If it is less, it is called under subscription.

Paid-up Capital-

The part of subscribed capital which have been paid to the company by the investors i.e. the Company may require 50% of the value of shares while making subscriptions. In such case 50% of the value received by the company shall be the paid up capital.

For any company, paid-up capital is important as many provisions of the Act and Rules require various types f compliances based on paid-up capital.

Debentures

A debenture, also called bonds, is a type of long term debt instrument which acknowledges debt. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital. Debentures may be secured or unsecured.

Types of Debenture:

The major types of debentures are redeemable, irredeemable, convertible, non-convertible, fully, partly, secured, unsecured, fixed, floating rate, zero coupon, deep discount. Following are the various types of debentures vis-a-vis their basis of classification:

Redeemable and Irredeemable (Perpetual) Debentures

Redeemable debentures carry a specific date of redemption on the certificate. The company is legally bound to repay the principal amount to the debenture holders on that date. On the other hand, irredeemable debentures, also known as perpetual debentures, do not carry any date of redemption. This means that there is no specific time of redemption of these debentures. They are redeemed either on the liquidation of the company or when the company chooses to pay them off to reduce their liability by issues a due notice to the debenture holders beforehand.

Convertible and Non-Convertible Debentures

Convertible debenture holders have to convert their holdings into equity shares. The rate of conversion and the period after which the conversion will take effect are declared in the terms and conditions of the agreement of debentures at the time of issue. On the contrary, non-convertible debentures are simple debentures which will continue to be debentures till redemption. However, if option is given to the investor to convert or not to convert the debenture into shares, this kind of debenture is called optionally convertible debentures.

Fully and Partly Convertible Debentures

Convertible Debentures are further classified into two – Fully and Partly Convertible. Fully convertible debentures are completely converted into equity whereas the partly convertible debentures have two parts. Convertible part is converted into equity as per agreed rate of exchange based on terms of issue. Non-convertible part remains as redeemable debenture which is repaid after the expiry of the agreed period.

Optionally Convertible Debentures

In few instances, it was found that at the time of compulsory conversion of debentures into shares, where partly or fully, the price of the share is lower or same. This do not give any additional benefit to the debenture holder rather there may be loss due to conversion. Here, the debenture holder may opt to continue as debenture holder and get interest , rather converting into equity share and incur loss. Option is asked for well ahead before the conversion date.

Secured and Unsecured Debentures

When the debenture is secured by the charge on some asset or set of assets it is known as secured or mortgage debenture and when it is issued solely on the credibility of the issuer is known as the naked or unsecured debenture. In case of unsecured debenture, the Debenture holder is like any other unsecured creditor. In case of secured debenture, there is a security created by the company on its assets. In case of issue of debenture on private placement basis, the security can be decided by the issuer company and the investor. Public issue of debentures have to be secured, if the maturity period is more than 18 months. In such case, a SEBI registered debenture trustee is appointed, to whom the security is mortgaged with a condition that if the company fails to repay interest or principal, the debenture trustee shall have right to sale off the property and satisfy the claims of debenture holders both interest and principal. The trustee needs to look after the debentureholders.

Fixed and Floating Rate Debentures

Fixed rate debentures have fixed interest rate over the life of the debentures. The floating rate debentures have the floating rate of interest which is dependent on some benchmark rate and goes on fluctuating depending on market conditions. Here debentures are not redeemed but the interest rate goes on changing.

Zero Coupon Debentures

Zero coupon debentures do not carry any coupon rate (interest) or we can say that there is zero coupon rate. The debenture holder will not get any interest on these types of debentures. In such case a warranty is issued with a debenture which may have entitlement to get a share at discount. This compensates the interest foregone. However, zero coupon rate debentures may be issued at discount and are normally called "discounted bonds". If the maturity period is long it is called "deep discount bond".

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STRATEGIC Financial Management (SFM)

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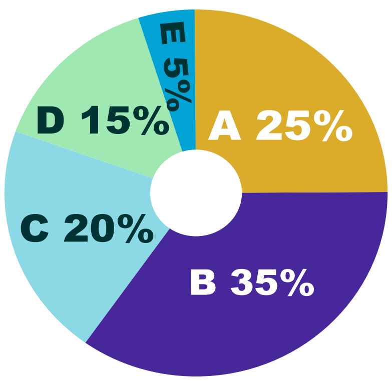
Your Preparation Quick Takes



Syllabus Structure

Section A: Investment Decisions **25%**

Section B: Security Analysis and Portfolio Management **35%**

Section C: Financial Risk Management **20%**

Section D: International Financial Management **15%**

Section E: Digital Finance **5%**

Strategic Financial Management

- **Capital Asset Pricing Model (CAPM):**

The mechanical complexity of the Markowitz's portfolio model kept both practitioners and academics away from adopting the concept for practical use. Its intuitive logic, however, spurred the creativity of a number of researchers who began examining the stock market implications that would arise if all investors used this model. As a result, what is referred to as the Capital Asset Pricing Model (CAPM) was developed.

The Capital Asset Pricing Model was developed by William F. Sharpe and John Linter in the 1960s. The CAPM is an economic model that describe how securities are priced in the marketplace. It has its roots in the normative mean-variance approach to investing that was first developed by Markowitz. That is, if certain assumptions are made, one of which is that all investors follow Markowitz's approach, then it can be shown that the expected return of an asset will be positively and linearly related to the level of its beta i.e. systematic risk.

- **Assumptions of CAPM:**

The CAPM rests on certain assumptions. These assumptions are the following:

1. Investors are wealth maximizers who select investments based on expected return and standard deviation.
2. Investors can borrow or lend unlimited amounts at a risk-free (or zero risk) rate.
3. There are no restrictions on short sales (selling securities that you don't yet own) of any financial asset.
4. All investors have the same expectations related to the market.
5. All financial assets are fully divisible (you can buy and sell as much or as little as you like) and can be sold at any time at the market price.
6. There are no transaction costs.
7. There are no taxes.
8. No investor's activities can influence market prices.
9. The quantities of all financial assets are given and fixed.

- **Substance of CAPM:**

According to CAPM, the expected return of any security is the risk-free rate of return plus premium for systematic risk. The premium is beta times the excess market return over the risk-free rate of return. In other words,

Expected return of a security i.e. $E(R_i) = R_F + \beta\,(R_M - R_F)$

Where, R_i = Expected rate of return to the investors, or Cost of Capital
R_F = Risk free rate of return
R_M = Market rate of return
β = Beta coefficient as a measure of risk of a security relative to market.

Here β co-efficient measures the systematic m risk of a given security. The amount of risk premium in the CAPM equation i.e. $\beta\,(R_M - R_F)$ depends on the value of beta coefficient, other factors remaining constant. The higher the value of beta the greater is the riskiness of a share and vice versa.

If β = 1 for a security, then the security is called neutral security, it means that the price of the security will be changed at the same rate as market index changes.

If β >1 for a security, then the security is called aggressive security, it means that the price of the security changes at higher rate than that of the changes in market index.

If β <1 for a security, then the security is called defensive security, it means the price of the security changes at low rate than that of the changes in market index.

If β =0 for a security, then the security is called risk free security. The security is free from systematic risk. However, it may have unsystematic risk.

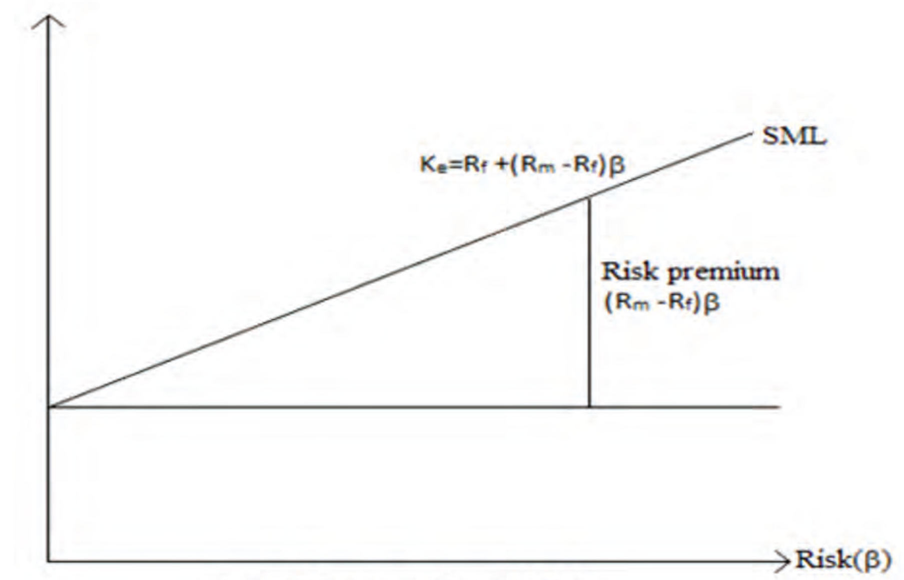
If β <0 for a security, then the security is called negative beta security. The security moves in opposite direction than that of the market.

Basically, CAPM describes the risk-return trade-off for securities. It describes the linear relationship between risk and return for securities.

This is to remind in this context that, the risks, to which a security is exposed, can be classified into two groups:

(I) **Unsystematic Risk:** This is also called company specific risk as the risk is related with the company's performance. This type of risk cannot be eliminated by the diversification of the securities portfolio. This is also known as diversifiable risk.

(ii) **Systematic Risk:** It is the macro-economic or market specific risk under which a company operates. This type of risk cannot be eliminated by the diversification hence, it is non-diversifiable. The example are inflation, Government policy, interest rate etc.
As diversifiable risk can be eliminated by an investor through diversification, the non-diversifiable risk is the risk which cannot be eliminated; therefore a business should be concerned as per CAPM method, solely with non-diversifiable risk.
The non-diversifiable risks are assessed in terms of terms of beta coefficient (β) which can be obtained through fitting regression equation between return of a security and the return on a market portfolio.



Cost of Equity under CAPM

(Note: SML=Security Market Line)

The diagrammatic presentation of CAPM is called Security Market Line (SML).
The idea behind CAPM is that investors need to be compensated in two ways- time value of money and risk.

- The time value of money is represented by the risk-free rate in the formula and compensates the investors for placing money in any investment over a period of time.
- The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking additional risk.

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DIRECT TAX LAWS
and International Taxation (DIT)

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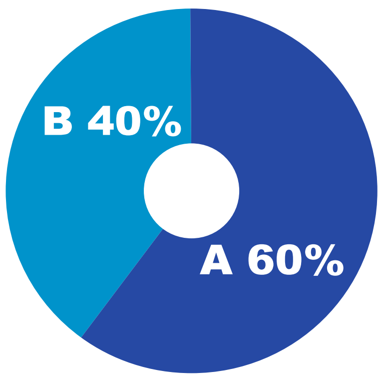
Your Preparation Quick Takes



Syllabus Structure

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

Section B: International Taxation **40%**

Case Study

Case 1

C Ltd has two separate divisions J and K. Division K was started on 14-05-2013. The summarized financial position of the company as on 1st October, 2022 was as under:

	(₹ in lakhs)
Share capital	1,200
Reserves and surplus	500
Loan creditors:	
Division J	400
Division K	300
Total	**2,400**
Represented by	
Fixed assets:	
Division J	800
Division K	
Goodwill	30
Vacant Land (Purchased on 02.03.2012)	170
Plant and Machinery (WDV)	400
Current assets:	
Division J	550
Division K	450
Total	**2,400**

On 01.10.2022, Division K was acquired by VM Ltd., in a slump sale, the entire sale consideration of ₹ 310 lakhs being paid through RTGS.

The following additional information are available relating to the fixed assets of Division K:

i. All the plant and machinery were acquired 11 months back.
ii. The WDV of the plant and machinery of division K as per the Income-tax Act, 1961 was ₹ 350 lakhs.
iii. Apart from these, there are plant used in scientific research for which deduction had been availed u/s

35AD in the assessment year 2020-21. The fair market value of these items of plant is ₹ 12 lakhs.
On the basis of aforesaid information, you are requested to choose correct options for the following:

1. What will be the net-worth of division K

a. ₹ 6,80,000
b. ₹ 7,00,000
c. ₹ 10,00,000
d. None of the above

2. What will be the nature of gain (loss) on such slump sale?

a. Long term capital gain (loss)
b. Short term capital gain (loss)
c. Business profit (loss)

d. None of the above

3. What will be the taxable income on such slump sale?

a. (₹ 3,90,000)

b. ₹ 3,90,000

c. (₹ 7,89,456)

d. None of the above

Case 2

Bharat Cellphones Ltd. (BCL) of Mumbai and Japan Mobiles Ltd. (JML) of Tokyo are associated enterprises. BCL imported 10,000 mobile handsets from JML for ₹ 15,000 per handset which are sold to unrelated parties in India for ₹ 20,000 per handset. BCL also imported similar mobile sets from Europe Ltd. (EL) of London which was sold with a gross profit margin of 25% on cost. JML offered quantity discount @ ₹ 2,000 per unit and whereas EL offered discount @ ₹ 800 per unit as quantity discount. The freight and customs duty paid for imports from EL had cost BCL ₹ 1,500 per unit. In respect of purchases from EL, the expenditure towards freight and customs duty was ₹ 500 per unit.

On the basis of aforesaid information, you are requested to choose correct options for the following:

1. Which method shall be considered as most appropriate method for computation of arm's length transaction?

a. Resale Price Method

b. Cost Plus Method

c. Comparable Uncontrolled Price Method

d. None of the above

2. What will be the arm's length price per mobile handset?

a. ₹ 13,800

b. ₹ 14,600

c. ₹ 15,000

d. None of the above

3. State the amount of increment required to be made in the total income on account of transfer pricing.

a. ₹ 120 lakhs

b. ₹ 40 lakhs

c. Nil

d. None of the above

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STRATEGIC Cost Management (SCM)

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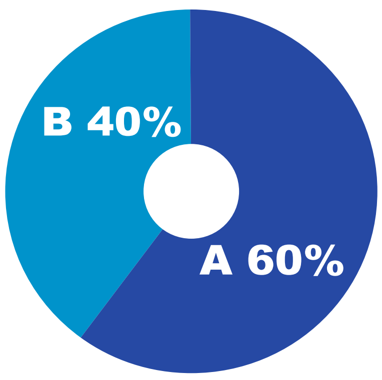
Your Preparation Quick Takes



Syllabus Structure

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

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

Revenue Distribution of IndiGo

1.00: Introduction

It is fine to say that 'Top-line steers the Bottom-line', but, the pertinent question is: what about the middle line? Prudence would vouch it that middle line stands for the 'Cost Aggregate'. Therefore, Bottom-line needs to be perceived as the excess of Top-line over the Middle-line. As such, Higher Costs would naturally mean a lower bottom-line and vice versa. It is in this context that Strategic Cost Management warrants appropriate emphasis as also attention. Could it be Value Chain Analysis; could it be Marginal Costing: could it be ABC Methods; Could it be Target Costing; or Could it be multiple other Methods &Techniques of SCM, everything facilitates betterment of the Bottom-Line.

2.00: Revenue Distribution

The Revenue Distribution of any Industry may be classified into three broad categories comprising Operating Expenses, Factor Cost and Effective Margin. Revenue refers to the top-line; Effective Margin refers to the bottom-line; Operating Expenses and Factor Cost together comprise the 'Cost Aggregate', i.e. the Middle-Line.

2.01: Operating Expenses

Operating Expenses, in general, represent the costs that are incurred to facilitate the day-to-day activities of an enterprise. Taking forward the IndiGo's example, Operating Expenses may be classified into seven heads of account consisting of:

(I) Fuel Expenses
(ii) Aircraft Rentals
(iii) Aircraft Maintenance
(iv) Landing Navigation & Other Airport Charges
(v) In-flight and Other Passenger Amenities
(vi) Selling & Marketing Expenses, and
(vii) Others

By behaviour and nature, the basket of operating expenses presents a complex phenomenon; Some of them are variable, some semi-variable, and a few semi-fixed; Some of them are directly traceable and others indirect; Some of them are market driven and others regulated; and some of them are certain and predictable whereas the others are uncertain and unpredictable. Fuel expenses are variable by behaviour, but volatile by regulated prices; Aircraft rentals could be time driven or journey driven; Aircraft maintenance is mixed; Landing navigation & other airport charges are regulated; In-flight and other passenger amenities could be discretionary, but competition driven; Selling & Marketing Expenses are semi-variable as also discretionary at times; And Others are a combination of variants.

2.02: Factor Costs

Factor Costs refer to the remuneration payable to the primary factors of production which consist of labour, capital, and enterprise. The relevant elements of cost may be outlined as Employee Cost that represents the remuneration to Human Resources, traditionally called as Labour; Interest that represents the cost of Borrowed Capital; and Depreciation & Amortization that represents the cost of utilization of Fixed Assets. Usually, the factor costs are pre-contacted and pre-committed in character and remain fixed for a period by nature.

2.03: Effective Margin

Effective Margin is the Surplus Before Tax & Extraordinary Items. Effective Margin reveals the net outputs of the financial performance and constitutes the bottom line for the enterprise. It is the surplus from which corporate tax payments, dividend flows, and additions to the reserves accrue. It is the surplus that strengthens the equity foundations. Generation of adequate effective margins and cash flows from operations are the essential prerequisites for the ultimate liquidity as also solvency of any enterprise.

3.00: Facts & Figures

Revenue Distribution of IndiGo for the financial years from 2010-11 to 2022-23 is tabulated in terms of Rs. crores in table-1; and in terms of percentages in table-2.

Table 1: Revenue Distribution of IndiGo (Rs. Crores)

Year	Fuel Expenses	Other Operating Expenses	Factor Costs	Effective Margin	Total
2010-11	1521.33	1295.74	401.69	709.43	3928.19
2011-12	2873.59	2103.16	639.76	63.89	5680.40
2012-13	4312.63	3250.85	840.65	993.25	9397.38
2013-14	5513.35	4109.98	1277.53	477.75	11378.61
2014-15	5748.49	5032.31	1606.44	1846.51	14233.75
2015-16	4779.32	6449.71	2427.85	2828.96	16485.84
2016-17	6341.51	7922.40	2836.23	2144.34	19244.48
2017-18	7760.14	9722.92	3231.72	3126.66	23841.44
2018-19	11942.79	13013.84	4406.34	318.44	29681.41
2019-20	12453.79	13144.30	10244.85	1271.07	37114.01
2020-21	3831.28	8276.16	9866.87	-6352.82	15621.49
2021-22	9695.24	11496.41	10577.54	-5230.18	26539.01
2022-23	23646.01	16745.19	12557.62	2643.06	55591.88

Table 2: Revenue Distribution of IndiGo (Percentages)

Year	Fuel Expenses	Operating Expenses	Factor Costs	Effective Margin	Total
2010-11	38.73	32.99	10.23	18.06	100.00
2011-12	50.59	37.02	11.26	1.12	100.00
2012-13	45.89	34.59	8.95	10.57	100.00
2013-14	48.45	36.12	11.23	4.20	100.00
2014-15	40.39	35.35	11.29	12.97	100.00
2015-16	28.99	39.12	14.73	17.16	100.00
2016-17	32.95	41.17	14.74	11.14	100.00
2017-18	32.55	40.78	13.56	13.11	100.00
2018-19	40.24	43.85	14.85	1.07	100.00
2019-20	33.56	35.42	27.60	3.42	100.00
2020-21	24.53	52.98	63.16	-40.67	100.00
2021-22	36.53	43.32	39.86	-19.71	100.00
2022-23	42.54	30.12	22.59	4.75	100.00
Average	38.15	38.68	20.31	2.86	
SD	7.64	5.89	15.52	16.30	
CV	20.04	15.24	76.43	569.19	

It may be observed from table-1 that fuel expenses have shot up from Rs.1521.33 crores in 2011-12 to Rs.23646.01 crores (i.e., 15.54 times) by 2022-23; other operating expenses from Rs. 1295.74 crores to Rs.16745.19 crores (i.e.,12.92 times); factor costs from Rs. 401.69 crores to Rs.12557.62 crores (i.e., 31.26 times); and effective margin from Rs. 709.43 crores to Rs.2643.06 (i.e., 3.73 times) crores over the period. The changes are, obviously, driven by a combination of complexities that are peculiar to the aviation industry.

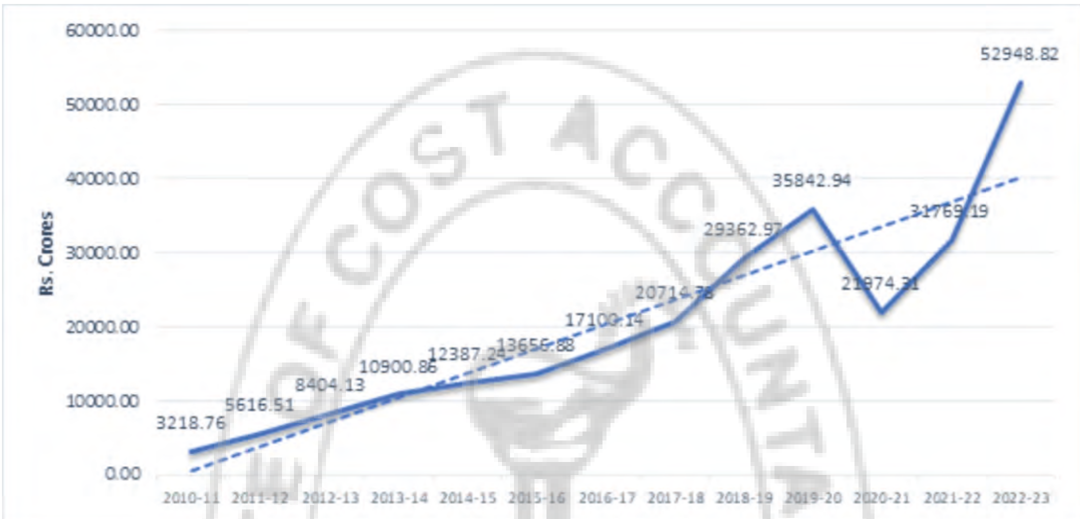
Going by the averages, as may be read from table-2, fuel expenses work out to 38.15% of the total; other operating expenses to 38.68%; factor costs to 22.59%; and effective margin to 2.36%. Coefficient of variation, at 569.19%, is maximum in case of effective margin; followed by 76.43% for factor costs; 20.04% for fuel expenses and 15.24% on other operating expenses.

Apparently, it is the effective margin (i.e., the bottom-line) that bee affected and impaired over the thirteen year period. The impairment has been catastrophic during the COVID years of 2020-21 and 2021-22.

4.00: Trend Graphs

Trend of Cost Aggregate of IndiGo over the thirteen-year period from 2010-11 to 2022-23 is presented by means of graph-1 and the trend of effective margin as graph-2.

Graph-1: Trend of Cost Aggregate of IndiGo



Graph-2: Trend of Effective Margin of IndiGo

The trends depicted through the graphs are self-explanatory. Cost Aggregate and Effective Margin do reveal similar (linear?) trends, but in different dimensions and directions. The volatility in the effective margin is quite obvious. The detailed reasons are worth probing and exploring for timely correction, containment and control; And, there ushers in Strategic Cost Management!

6.00: Do it Yourself

(i) Highlight the importance of Strategic Cost Management in relation to bettering the 'Bottom-line'.

(ii) Write a note on the Revenue Distribution of Aviation Industry.

(iii) Evaluate the trend of effective margin of IndiGo for the period from 2010-11 to 2022-23.

Resources: Annual Reports of IndiGo for various years.

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Azadi Ka Amrit Mahotsav

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COST and Management Audit (CMAD)

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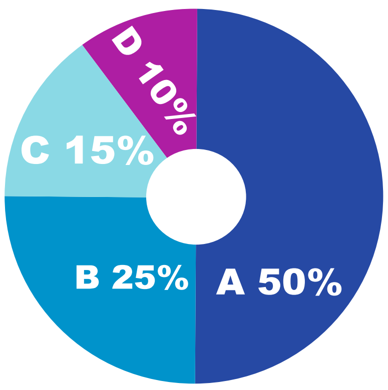
Your Preparation Quick Takes



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

Keeping in view of the importance and weightage of 'Case Studies' in the CMA course, for success in examination as well as in future professional life proper understanding and appropriate presentation is very important.

Case study on 'Internal Control' in connection with two very important areas viz. 'Sales to Collection' and 'Procurement to Pay' are given hereunder.

Description of the case: Sales to Collection

All sales to customers are allowed 30 days credit, FOB shipping point. The activities carried out by each Department described hereunder.

Sales Department

The sales department receives customer orders by hard copy mail or fax. Upon receipt of the order, a member of the sales staff accesses the customer record and reviews the available credit before creating a Sales Invoice. For customers with insufficient available credit, the clerk refers the order to Sally Kwan, the credit manager, for approval. If granted, then Sally verbally authorizes the clerk to increase the customer's line of credit. For approved sales, the clerk creates a record in the Sales Invoice file via his terminal in the Department. The system automatically assigns an Invoice Number, which is the primary key for the record, however, it does not facilitate automated data entry. The clerk must therefore manually enter the transaction details into the Sales Order record including Product Number, Sales Price, Quantity, Amount Due, and Sales Date.

Warehouse

Triggered by the sales invoice the system automatically prints a stock release document on the warehouse terminal, which a member of the warehouse staff uses for picking the goods. The clerk then sends the goods, along with the stock release document, to the Shipping Department. Once the goods leave the warehouse, the warehouse clerk adjusts the Quantity on Hand field of the respective record in the inventory file to reflect the units sold.

Shipping Department

The shipping department clerk receives the stock release and the inventory, prepares them for shipment, selects a carrier and prints the packing slip and Bill of Lading (BL). The clerk then adds a record of the shipment to the Shipping Log file and physically hands over the goods to the carrier. Assuming no unusual circumstances, sales orders received by 2 PM are shipped the same day. Items received by shipping after 2 PM are shipped the following day.

Billing

At the end of the day, the system automatically searches the Sales Invoice file for records added to the file that day and prints hard copy customer invoices and remittance advices, which a clerk mails to the customers. The system automatically calculates due dates based on net/30 terms of trade and places them in the Due Date fields of the respective Sales Invoice records.

Cash Receipts

Maria Perez, the cash receipts clerk, receives the customer checks and remittance advises directly from the customer. She begins by creating a record in the Cash Receipts file to which the system automatically assigns a Remittance Number as the primary key. Then, using the invoice number (taken from the hard copy remittance advice) as a search key she locates the appropriate invoice in the Sales Invoice file and manually adds the remittance Number to a field in the record. This closes the invoice and marks it paid. Maria also adds the Invoice Number from the invoice record to the cash receipts record as a cross reference. She then manually adds the customer number, amount, and payment date to the Cash Receipts record. At the end of the day, she prepares a deposit slip and sends the checks to the bank. She files the remittance advices in her office.

The Sales Invoice file serves to calculate both total sales for the period and accounts receivable. The total of the Amount Due field for all items that have been shipped by the end of the period constitutes total sales. Invoiced items shipped, but not paid (still open) by period end are accounts receivable.

From the above information, following Internal Control Weaknesses can be pointed out.

A. There is a lack of transaction authorization process. Credit approval of customers is provided verbally and informally. Under the current procedures, a sales clerk could extend credit without proper management approval.

B. Unmitigated risk: Sales may be made to non-creditworthy customers, which results in under recovery and excessive bad debts.

C. Possible account misstatements:

. Amount Receivable (AR)is overstated.

. Bad Debt understated.

. Revenue is overstated.

Lack of Computer /ERP Controls over Creation of Sales Invoice

D. Internal Control Weakness: Due to inadequate system functionality and computer controls, sales clerks are required to manually enter sales transaction details including sales prices, quantities, and calculate the amounts due.

E. Unmitigated Risk: This environment lends itself to clerical errors in the creation of sales invoice records.

F. Possible account misstatements:

. Sales is incorrectly recorded

. AR is inaccurate

. Bad Debt Expense incorrect.

Potential Errors in Recognizing Sales

G. Internal Control Weakness: The system prepares hard copy sales invoices based only the existence of a record in the Sales Invoice file without verification that the ordered products were actually shipped.

H. Unmitigated Risk: Recognizing sales before they are shipped (realized) is contrary to accounting theory /standard and may result in the following end of period errors.

I. Possible account misstatements:

. Sales are overstated.

. AR is overstated.

. Allowance for Bad Debts is understated.

. Bad Debt Expense is understated.

Warehouse Asset Custody

J. Internal Control Weakness: Segregation of duties are lacking here. The warehouse staff have custody of inventory and record keeping responsibility for updating the inventory subsidiary ledger.

K. Unmitigated Risk: Because the warehouse clerks have access to the accounting records, they may conceal inventory losses and thefts.

L. Possible account misstatements:

. Inventory understated.

. Cost of Goods Sold (COGS) overstated.

Custody of Cash Assets

M. Internal Control Weakness: There needs to be better segregation of duties here. The cash receipts clerk has custody of cash and record keeping responsibility for posting payments to open invoices.

N. Unmitigated Risk: The current transaction processing procedures increase the risk of errors such as posting incorrect amounts or posting of wrong invoices. The risk of frauds such as skimming or lapping also exist.

O. Possible account misstatements:

. Cash Receipts understated.

. Accounts receivable overstated.

Lack of Computer /ERP Controls over Recording Cash Receipts

P. Internal Control Weakness: Due to inadequate system functionality and computer controls the cash receipts clerk is required to manually enter cash receipts transaction details including Remittance Number, Customer Number, Amount, Payment Date to the Cash Receipts record.

Q. Unmitigated Risk: This environment lends itself to clerical errors in the creation of cash receipts records.

R. Possible account misstatements:

Discrepancies between customer amounts owed in Sales Invoice records and remittance amounts recorded in corresponding Cash Receipts records.

Description of the case: Procurement to Pay

All purchases from suppliers are FOB destination. Activities carried out by respective Departments are given hereunder.

Warehouse

Each morning James Smith reviews an automatically generated inventory status report from his office terminal. He determines the items that need replenishing and selects suppliers from the Vendor file, which he maintains. Smith then adds a record to the purchase order file. The system assigns each new record a unique number (PO Number) as the primary key. Smith manually enters the date, the product to be ordered, order quantity, expected unit cost (the extended cost is automatically calculated by the system), and the ID (Vendor-Number) of the selected vendor. Smith then prints the purchase orders from his terminal, signs them, and has his secretary mail them to the respective suppliers

Receiving

The WH receives supplier orders directly where Smith, or one of the warehouse employees, counts and inspects the items and reconciles the order with the attached packing slip. The receiving clerk then adds a record to the Receiving Report file from the warehouse terminal. The system assigns a unique key (RR Num) to each record. The clerk manually enters the PO No., prod. No., qty. received, vendor ID no., and the date of receipt. The clerk then files the packing slip in the warehouse. Finally, the clerk updates the quantity on hand filed in the inventory subsidiary ledger to record the receipt of the goods.

Accounts Payable

James Jefferson, the Accounts Payable clerk receives the vendor's hard copy invoice and, using the PO number from the invoice as a search key, he matches the invoice with the corresponding purchase order. James then creates a record in the Voucher Payable file. The system assigns a unique key (Voucher Number) to each record. The clerk enters manually the following data directly from the supplier's invoice: purchase order number, vendor number, supplier invoice number, full amount due, discounted amount due, and due date. Finally, Jefferson files the hard copy vendor invoice in the office filing cabinet.

Cash Disbursements

Each day, Greg Orlando in the Cash Disbursements department reviews the Voucher Payable file for items due for payment that day. For each item due, he adds a record to the Cheque Register file. The system assigns it a unique key (Cheque Num) and Greg manually adds the following data to the Cheque Register record: voucher number, vendor number, amount of payment, and date. The system automatically places the check number in the appropriate Voucher Payable record to close the voucher and mark it paid. The checks are printed in Greg's office and then sent to the vendor. Data in the Voucher Payable file is the basis for calculating both total purchases for the period and accounts payable. The total of the Full Amount field constitutes total purchases for the period. Items in the file that are unpaid (still open) at period end are accounts payable.

1) No Purchase Requisition

A) Internal Control Weakness: There is a lack of transaction authorization regarding James Smith. He is responsible to authorize and execute transactions. He determines the items that need replenishing and selects suppliers from the Vendor file, which he maintains.

B) Unmitigated risks.

. May order items that are not needed.

. Ordering from non-approved vendors at higher than market prices.

. Opportunity for fraud such as kickbacks and pass through fraud.

A) Possible account misstatements:

. Inventory overvalued.

. Purchases excessive.

2) No blind copy of the Purchase Order

A) Internal control Weaknesses: Here, activities lack segregation of duties. There is no formal receiving function to count and inspect inventory receipts. Also, no blind copy of the PO is created to control receiving process.

B) Unmitigated risk: Because the clerk used the packing slip instead of a blind copy he may avoid actually counting or inspecting items being received:

May receive items not ordered or incorrect quantities.

. May receive and accept damaged goods.

A) Possible Account misstatements:

. Inventory overvalued.

Inventory Custody

A) Internal Control Weakness: The Warehouse staff have inventory custody and record keeping responsibility.

B) Unmitigated Risk: Because the warehouse clerks have access to the accounting records, they may conceal inventory losses and thefts.

C) Possible account misstatements:

. Inventory understated.

. Cost of Goods sold overstated.

Three-way match

A) Internal Control Weaknesses: There is no independent verification. The accounts payable clerk does not perform a three-way-match, which reconciles the vendor invoice against the purchase order and the receiving report. This verifies that the company is only responsible for goods that were ordered and received.

B) Unmitigated Risk: Because the clerk does not reconcile the invoice with the receiving report (only the PO), the entity may pay for items not received or for damaged goods.

C) Possible account misstatements:

. Accounts payable misstated.

. Cash disbursement errors.

Azadi Ka Amrit Mahotsav

GROUP: iv, PAPER: 18

CORPORATE Financial Reporting (CFR)

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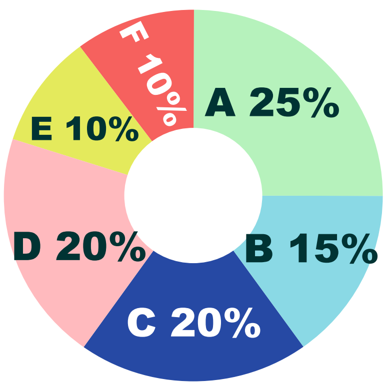
Your Preparation Quick Takes



Syllabus Structure

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

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

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

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

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

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

An overview of Ind AS 116 Leases

In this issue we shall have an overview of Ind AS 116 Leases.

In leases two entities are involved, lessee and lessor. As per Ind AS 116 at inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the **right to control the use of an identified asset** for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, an entity shall assess whether, throughout the period of use, the customer has both of the following:

(a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) the right to direct the use of the identified asset.

If the contract is or contains a lease:
The lessee shall recognize right-of-use (ROU) asset and lease liability, and measure them along with interest on lease liability and depreciation and impairment of ROU asset, and present and disclose them as directed in the standard [unless exemption opted for short term or low value lease].

Lease liability is measured at the inception at present value of [fixed payments + variable lease payments + residual value guarantees + the exercise price of a purchase option + payments of penalties for terminating the lease].

A right-of-use asset at the commencement date is measured at cost.

Cost = the amount of the initial measurement of the lease liability + any lease payments made at or before the commencement date, less any lease incentives received + any initial direct costs incurred by the lessee + an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site.

Subsequently, ROU asset is measured using cost model (unless revaluation model is applied).

To apply a cost model, a lessee shall measure the right-of-use asset at cost:
(a) less any accumulated depreciation and any accumulated impairment losses; and
(b) adjusted for any remeasurement of the lease liability specified.

After the commencement date, a lessee shall measure the lease liability by:
(a) increasing the carrying amount to reflect interest on the lease liability;
(b) reducing the carrying amount to reflect the lease payments made; and
(c) remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lessee shall present:
(I) in balance sheet (a) ROU asset; and (b) lease liability; [no asset or liability is presented for exempt short term or low value lease]
(II) in statement of profit and loss: (a) interest on the lease liability; and (b) depreciation and impairment loss of ROU assets; [only lease payments as expense are shown in statement of profit and loss for exempt short term or low value lease]
(III) in statement of cash flows under financing activities(a) Principal repayment of lease liability; and (b) Interest payment on lease liability. [only lease payments are shown under operating activities for exempt short term or low value lease]

If the contract is or contains a lease:
A lessor shall classify each of its leases as either an operating lease or a finance lease.
A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.
A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards

incidental to ownership of an underlying asset.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

The net investment in the lease to appear in balance sheet at inception = the present value of the lease receivables + the present value of unguaranteed residual value - deferred selling profit;
Subsequently, the net investment in the lease is measured at initial value – (lease receipt – interest income) +/- lease modification adjustment.

Deferred selling profit = the present value of the lease receivables – (the carrying amount of the underlying asset – present value of unguaranteed residual)

Interest income to be credited to Profit and Loss account = interest on the lease receivable + accretion of the unguaranteed residual value + amortisation of deferred selling profit.

Lease receipt principal amount is shown under investing activities in statement of cash flows whereas the interest amount is shown under operating activities if the lessor is a financing company, otherwise it appears under investing activities.

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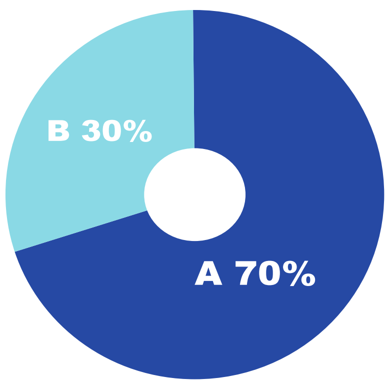
GROUP: iv, PAPER: 19

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%**

Indirect Tax Laws and Practice

Case Study - 1

Decan Machine Tools Ltd a registered supplier in Bhubaneswar in Odisha has provided the following details for supply of one machine –

Sl No	Particula ₹	Amount (₹)
1	List price of supplied (Not included the items below Sl 2 to 5)	160000
2	Tax levied by local authority for sale of such machine	12000
3	Discount of 2% on the list price of machine was provided (recorded in the invoice of machine)	
4	Packing expenses for safe transportation charged separately in the invoice	8000

Decan Machine Tools Ltd received ₹ 10000/- as subsidy from a NGO on sale of such machine. The price ₹ 160000/- of the machine is after considering such subsidy.
During the month of June 2022 Decan Machine Tools Ltd supplied three machine Intra State supplier and one machine to Inter State Customer.
Decan Machine Tools Ltd purchased inputs (Intra State) for ₹ 240000/- exclusive of GST for supplying the above four machine during the month.
The balance of ITC at the begening of June 2022 – CGST – ₹ 36000/-, SGST – ₹ 8000/- and IGST – ₹ 52000/-.

Notes –

(i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively for both inward and outward supplies.
(ii) All the amount given above are exclusive of GST.
(iii) All the conditions necessary for availing ITC have been fulfilled.

Now Decan Machine Tools Ltd like to know the answer of the following questions from the different opinion received in the form of answer. Being a professional you are requested to answer the followings –

(a) What is the value of taxable supply ?
(b) What is the minimum net GST payable in cash?
(c) Which of the following statement given below are true?
(d) What are the total ITC available?

(a) What is the value of taxable supply?

(i) ₹ 160000/-
(ii) ₹ 172000/-
(iii) ₹ 186800/-
(iv) ₹ 190000/-

(b)What is the minimum net tax payable in cash?

(i) CGST – ₹ 50436/-, SGST – ₹ 50436/- and IGST – ₹ 33624/-.
(ii) CGST – ₹ 36000/-, SGST – ₹ 8000/- and IGST – ₹ 52000/-.
(iii) CGST – ₹ 50436/-, SGST – ₹ 29600/- and IGST – ₹ 33624/-.
(iv) CGST – NIL, SGST – ₹ 2460/- and IGST – NIL

(c)Which of the following statement is true?

(i) IGST credit first be utilized towards payment of IGST and balance amount can be utilized towards CGST only.
(ii) IGST credit first be utilized towards payment of IGST remaining amount can be utilized towards CGST and SGST in any order and in any proportion.
(iii) CGST credit can be utilized towards payment of SGST and vice versa.
(iv) SGST credit can be utilized towards payment of CGST and vice versa.

(d)What are the total ITC available?

(i) CGST – ₹ 50436/-, SGST – ₹ 50436/- and IGST – ₹ 33624/-.
(ii) CGST – ₹ 36000/-, SGST – ₹ 8000/- and IGST – ₹ 52000/-.
(iii) CGST – ₹ 21600/-, SGST – ₹ 21600/- and IGST – ₹ 52000/-.
(iv) CGST – ₹ 57600/-, SGST – ₹ 29600/- and IGST – ₹ 52000/-.

Workings –

Particula₹	Amount (₹)
List price of the machine	160000
Add : Tax levied by local authority on such machine (Note - 1)	12000
Add : Packing expenses for safe transportation (Note - 1)	8000
Add : Subsidy rceived from NGO on sale of each machine (Note - 1)	10000
Total	190000
Less : Discount @ 2% on ₹ 160000/-	3200
Value of taxable supply	**186800**

Computation of Net GST payable in cash by Decan Machine Tools Ltd

	CGST (₹)	SGST (₹)	IGST (₹)
For sale of machine	50436	50436	33624
Total output tax	50436	50436	33624
Less : Set off of IGST against IGST and SGST (Note - 3)		-18376	-33624
Less : Set off of CGST against CGST and SGST against SGST (Note - 4)	-50436	-29600	
	NIL	2460	

Notes –

1.As per section 15 of CGST Act.
2.Intra State Sale = CGST = (₹ 186800/- X 3) @ 3% = ₹ 50436/-
SGST = (₹ 186800/- X 3) @ 3% = ₹ 50436/-
Inter State Sale = IGST = ₹ 186800/- @ 3% = ₹ 33624/-

3.ITC at the beginning – IGST ₹ 56000/-
Less : Entirely adjust with IGST ₹ 33624/-
Balance with SGST ₹ 18376/-

IGST credit first be utilized towards payment of IGST balance amount can be utilized towards CGST and SGST in any order and in any proportion.

4. **Computation of total ITC available**

	CGST (₹)	SGST (₹)	IGST (₹)
Opening balance of ITC (Begening June 22)	36000	8000	52000
Add : Input purchased during the month (Note - 5)	21600	21600	
Total ITC available	57600	29600	52000

CGST credit can not be utilized towards payment of SGST and vice versa

5. Input purchase - Intra State ₹ 240000/-

CGST @ 9% on ₹ 240000/-	₹ 21600/-
SGST @ 9% on ₹ 240000/-	₹ 21600/-

Case Study – 2

M/s Fly High Ltd imported certain commodity into India from country covered by notification issued by the Central Government under Section 9A of the Customs Tarrif Act 1975. Following details made available.

(a) CIF value of the consignment US $ 35000.
(b) Quantity imported 700 nos
(c) Exchange rate applicable ₹ 80 = US $ 1
(d) Basic Customs Duty – 12%
(e) Social Welfare Surcharge applicable as per the Finance Act,2018.
(f) As per the Notification the anti dumping duty will be equal to the difference between the cost of commodity calculated @ US $ 90 per piece and the landed value of the commodity as imported.

The Importer as not having any knowledge about to, calculate the liability on account of normal duties, Cess and the anti dumping duty and seeking your help as a Cost Accountant in practice to answer the following questions –

(a) What will be the value of imported goods?
(b) What is the Open Market Value?
(c) What amount of Anti Dumping Duty to be paid?
(d) What is total amount of Customs Duty to be payable.

Assuming that only Basic Customs Duty (BCD) and Social Welfare Surcharge are payable.
IGST @ 12% applicable.

(a)What will be the value of Imported Goods
(i) ₹ 2800000/-
(ii) ₹ 3136000/-
(iii) ₹ 3140400/-
(iv) ₹ 3169600/-

(b)What is the open market value?
(i) ₹ 2800000/-
(ii) ₹ 3169000/-
(iii) ₹ 5040000/-
(iv) ₹ 6000000/-

(c)What amount of Anti Dumping Duty to be paid
(i) ₹ 1562000/-
(ii) ₹ 1871000/-
(iii) ₹ 2240000/-
(iv) ₹ 2652000/-

(d) What is total amount of Customs Duty to be payable.
(i) ₹ 2845400/-
(ii) ₹ 2509400/-
(iii) ₹ 2475800/-
(iv) ₹ 1871000/-

Workings –

M/s Fly High Ltd

Statement showing land value of imported goods and Customs Duty

Particula₹	₹	
CIF value (US $)	35000	
Assessable value	2800000	WN - 1
Add : Customs Duty	336000	WN - 2
Add : Social Welfare Surcharge	33600	WN - 3
Value of Imported Goods / Landed Value	3169600	
Anti Dumping Duty	1871000	WN - 4
Open Market Value	5040000	
Add : IGST @ 12%	60480	WN - 5
	5644800	
Total Customs Duty	2845400	WN - 6

Working Notes (WN)

1. $ 35000 X ₹ 80 = ₹ 2800000/-
2. 12% of ₹ 2800000/- = 336000/-
3. Social Welfare Surcharge @ 10% on ₹ 336000/- = ₹ 33600/-
4. Market value of Imported Goods = 700 pieces X ₹ 80/- X US $ 90/- = ₹ 5040000/-
   Anti Dumping Duty = ₹ 5040000 – ₹ 3169000 = ₹ 1871000/-
5. IGST @ 12% on ₹ 5040000/- = ₹ 604800/-
6. Total Customs Duty Payable = ₹ 336000/- + ₹ 33600/- + ₹ 604800/- + ₹ 1871000/- = ₹ 2845400/-

Answer

Case Study – 1

(a) (iii)
(b) (iv)
(c) (ii)
(d) (iv)

Case Study – 1

(a) (iv)
(b) (iii)
(c) (ii)
(d) (i)

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Azadi Ka Amrit Mahotsav

GROUP: iv, PAPER: 20 A

STRATEGIC

Performance Management and Business Valuation (SPMBV)

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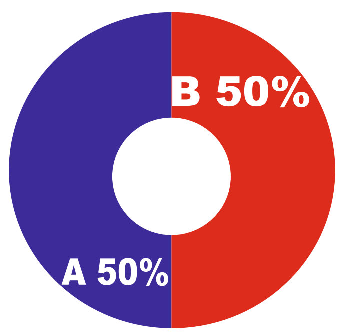
Your Preparation Quick Takes



Syllabus Structure

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

Section B: Business Valuation 50%

Module 6 Laws and Compliance in Business Valuation

SLOB Mapped against the Module:
To obtain an understanding of regulatory framework around valuation; Different regulations that govern valuation in India and globally

Learning Outcome : Apply different regulations that govern valuation in India and globally.

Focus : SARFAESI Act

Objective of the Act :

The objective of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is to provide a legal framework for banks and financial institutions to recover non-performing assets (NPAs) by enforcing the security interests they hold in these assets. In other words, the SARFAESI Act is primarily aimed at facilitating the speedy recovery of loans that have turned into bad debts by empowering banks and financial institutions to take certain measures to recover their dues without the intervention of the court system.

Key objectives of the SARFAESI Act include:

- Empowering secured creditors (typically banks and financial institutions) to take possession of the collateral security (assets) without the need for court intervention, provided certain conditions are met.
- Enabling secured creditors to sell or lease the secured assets in order to recover their dues.
- Facilitating the transfer of NPAs from banks to asset reconstruction companies (ARCs) for the purpose of resolution and recovery.
- Streamlining and expediting the recovery process, making it more efficient and less time-consuming.
- Providing legal backing for the establishment of asset reconstruction companies and securitization companies to assist in the resolution of bad debts.
- Protecting the interests of banks and financial institutions by allowing them to take appropriate action against defaulting borrowers and guarantors.
- It's important to note that while the SARFAESI Act empowers banks and financial institutions to take certain actions to recover their dues, it also contains provisions to protect the interests of borrowers. Borrowers have the right to appeal and seek redressal if they believe the actions taken by the creditors are not in accordance with the law. The Act is intended to strike a balance between the interests of the lenders and the rights of the borrowers.

The Key provisions of the Act are:

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 contains several key provisions aimed at facilitating the recovery of non-performing assets (NPAs) by banks and financial institutions. Some of the key provisions of the SARFAESI Act include:

1. Definition of Key Terms: The Act defines various terms, such as "borrower," "debt," "default," "financial asset," "secured asset," and others, which are essential for the interpretation and application of the Act.

2. Enforcement of Security Interest: One of the primary provisions of the SARFAESI Act is the empowerment of secured creditors (typically banks and financial institutions) to enforce their security interests in the event of a default. They can take possession of the secured assets without the need for court intervention.

3. Notice to Borrower: Before taking any action under the Act, the secured creditor is required to serve a notice to the borrower, specifying the amount due, the default, and the intention to take possession of the secured assets. The borrower has the right to make representations and objections.

4. Right to Appeal: The Act allows borrowers to appeal to the Debt Recovery Tribunal (DRT) if they believe the actions of the secured creditor are not in compliance with the Act.

5. Right to Borrower to Make Payment: The borrower has the option to clear the dues in full within 60 days of the notice, thereby preventing the enforcement of security interest.

6. Sale of Secured Assets: If the borrower fails to repay the dues within the stipulated period, the secured creditor can proceed to sell or lease the secured assets to recover the outstanding debt. This can be done through a public auction or private treaty.

7. Asset Reconstruction Companies (ARCs): The Act provides for the establishment of ARCs, which can acquire NPAs from banks and financial institutions for the purpose of resolution and recovery.

8. Central Registry: The Act mandates the creation of a Central Registry to maintain records of all transactions related to the creation and satisfaction of security interests. This helps in preventing multiple financing against the same asset.

9. Penalties: The Act specifies penalties for non-compliance with its provisions, including imprisonment and fines.

10. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Rules, 2002: These rules provide more detailed guidelines for the implementation of the SARFAESI Act.

11. It's important to note that while the SARFAESI Act empowers secured creditors to take action to recover their dues, it also contains provisions to protect the interests of borrowers, and borrowers have the right to seek redressal through the appropriate legal channels if they believe their rights are being violated. The Act aims to strike a balance between the interests of lenders and the rights of borrowers.

Enforcement of Security Interest:
Enforcement of security interests under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 refers to the legal process by which a secured creditor (typically a bank or financial institution) takes action to recover the outstanding dues by enforcing the security that has been provided by the borrower against a loan. The Act provides a framework for secured creditors to take possession of and sell secured assets when the borrower has defaulted on the loan.

The following explains how enforcement of security interests typically works under the SARFAESI Act:

1. Notice to the Borrower: Before taking any enforcement action, the secured creditor must serve a notice to the borrower. This notice informs the borrower about the default, the amount of outstanding debt, and the intention of the creditor to enforce the security interest.

2. Opportunity for the Borrower: The borrower is given an opportunity to make representations and objections to the notice. The borrower can, within 60 days from the date of the notice, repay the outstanding dues in full to prevent the enforcement of security interests.

3. Taking Possession: If the borrower does not repay the dues within the specified period, the secured creditor has the legal authority to take possession of the secured assets without the need for court intervention. This means that the lender can physically take control of the assets that were provided as collateral against the loan.

4. Sale or Lease of Secured Assets: After taking possession of the assets, the secured creditor can proceed to sell or lease them in order to recover the outstanding debt. This can be done through a public auction or private treaty, as specified in the Act.

5. The enforcement of security interests is a significant aspect of the SARFAESI Act, as it empowers secured creditors to take direct action to recover their dues without the often time-consuming and costly process of going through the traditional legal system. However, the Act also includes provisions to protect the rights and interests of borrowers, including the right to appeal to the Debt Recovery Tribunal (DRT) if they believe the creditor's actions are not in compliance with the law. This helps strike a balance between the interests of the lender and the rights of the borrower.

Case Study: ABC Bank vs. XYZ Manufacturing Pvt. Ltd.

Background: XYZ Manufacturing Pvt. Ltd. had borrowed a substantial amount of money from ABC Bank to finance the expansion of its manufacturing facility. As part of the loan agreement, XYZ had provided certain machinery and land as collateral security for the loan. Unfortunately, due to a downturn in the market and internal management issues, XYZ Manufacturing Pvt. Ltd. failed to make the scheduled loan repayments, and the loan had turned into a non-performing asset (NPA).

Enforcement of Security Interests:

1. **Notice to Borrower:** ABC Bank, the secured creditor, initiated the enforcement process by sending a notice to XYZ Manufacturing Pvt. Ltd. The notice outlined the default in loan repayment, specified the outstanding debt amount, and conveyed ABC Bank's intention to enforce its security interest in the collateral provided.

2. **Opportunity for the Borrower:** XYZ Manufacturing Pvt. Ltd. received the notice and had 60 days to clear the outstanding debt in full to prevent the enforcement of security interests. During this period, the company could make representations and objections if they believed there were any discrepancies in the amount claimed by the bank.

3. **Taking Possession:** Unfortunately, XYZ Manufacturing Pvt. Ltd. was unable to repay the debt within the 60-day notice period. Consequently, ABC Bank exercised its right to take possession of the collateral, which included certain machinery and land.

4. **Sale of Secured Assets:** Following the possession of the assets, ABC Bank proceeded to sell them to recover the outstanding loan amount. The bank conducted a public auction of the machinery and a private treaty sale of the land. The proceeds from the sale were used to settle the outstanding debt and related expenses.

Possible outcome: ABC Bank successfully recovered the outstanding debt from XYZ Manufacturing Pvt. Ltd. by enforcing its security interests as per the SARFAESI Act. While this case study is fictional, it illustrates the typical process that occurs when a borrower defaults on a loan, and the secured creditor uses the SARFAESI Act to enforce their security interests and recover their dues.

It's important to note that the actual enforcement process may vary based on the specifics of the case, and borrowers have the right to appeal and seek redressal if they believe that the lender's actions are not in compliance with the law.

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GROUP: iv, PAPER: 20 B

RISK MANAGEMENT

in Banking and Insurance (RMBI)

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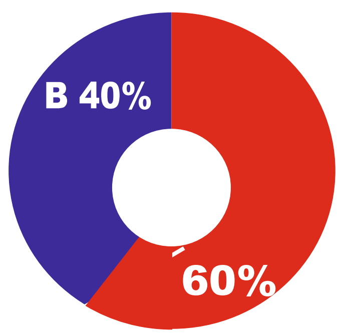
Your Preparation Quick Takes



Syllabus Structure

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

Capital Adequacy Ratio in India: Ensuring Stability and Growth in the Banking Sector

Introduction

The banking sector is the backbone of any economy, playing a pivotal role in ensuring financial stability and fostering economic growth. One of the key indicators of a bank's financial health and stability is its Capital Adequacy Ratio (CAR). CAR is a measure of a bank's capital in relation to its risk-weighted assets and is crucial for safeguarding depositors' funds, maintaining investor confidence, and ensuring the overall stability of the financial system. Let's delves into the significance of Capital Adequacy Ratio in the context of the Indian banking sector, its evolution, regulatory framework, and its impact on the economy.

Historical Perspective

In India, the need for a robust regulatory framework concerning capital adequacy became apparent in the early 1990s when the country embarked on economic liberalization and banking sector reforms. The Reserve Bank of India (RBI) introduced the CAR framework in alignment with international standards, primarily the Basel Accords, to enhance the soundness and stability of Indian banks.

Components of Capital Adequacy Ratio

CAR is calculated by dividing a bank's capital by its risk-weighted assets. The components of CAR typically include Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). Tier 1 capital comprises common equity and disclosed reserves, while Tier 2 capital includes subordinated debt and other instruments. The risk-weighted assets are calculated by assigning different weights to various categories of assets based on their credit risk.

Significance of Capital Adequacy Ratio

Risk Mitigation:

A high CAR indicates that a bank has an adequate buffer to absorb losses, reducing the risk of insolvency during economic downturns or financial crises.

Lending Capacity:

Maintaining a healthy CAR allows banks to lend more, promoting investments and economic growth. Banks with higher capital ratios are more confident in extending credit to businesses and individuals.

Investor Confidence:

Investors and depositors perceive banks with a strong CAR as more stable and trustworthy, leading to increased investor confidence and financial stability in the banking sector.

Regulatory Compliance:

Banks are required by regulatory authorities like the RBI to maintain a minimum CAR to ensure compliance with prudential norms. Non-compliance can result in penalties and restrictions on business operations.

Regulatory Framework in India

The RBI, as India's central banking institution, sets the regulatory framework for banks, including guidelines on CAR. The regulatory guidelines ensure that banks maintain a minimum CAR to absorb unexpected losses and operate with stability. The RBI regularly reviews and updates these guidelines to align them with international best practices and to address emerging risks in the financial sector.

Impact on Economic Growth

A well-capitalized banking sector is essential for economic development. Adequate capital enables banks to absorb losses, provide loans to businesses, support infrastructure development, and stimulate economic activities. Furthermore, a stable banking system attracts foreign investments, fostering economic growth and development in the country.

Challenges and the Way Forward

While India has made significant progress in strengthening its banking sector through the implementation of the CAR framework, challenges remain. Adapting to evolving global banking standards, addressing the impact of technological advancements, and ensuring the adequacy of capital in the face of economic uncertainties are ongoing challenges. Continuous monitoring, periodic revisions of regulatory frameworks, and enhancing risk management practices are crucial to overcoming these challenges.

Conclusion

The Capital Adequacy Ratio in India plays a pivotal role in ensuring the stability and growth of the banking sector. Through prudent regulatory measures, the RBI has established a framework that promotes financial stability, investor confidence, and economic growth. As India's economy continues to evolve, maintaining an appropriate CAR remains vital, not only for the banking sector but also for the overall progress of the nation. With a robust regulatory framework and proactive measures, India can navigate challenges and build a resilient banking sector that contributes significantly to the country's economic prosperity.

Practical Case Study

Scope of Application of Capital Adequacy Framework:

A bank shall comply with the capital adequacy ratio requirements at two levels:

(a) the consolidated ("Group") level capital adequacy ratio requirements, which measure the capital adequacy of a bank based on its capital strength and risk profile after consolidating the assets and liabilities of its subsidiaries / joint ventures / associates etc. except those engaged in insurance and any non-financial activities; and

(b) the standalone ("Solo") level capital adequacy ratio requirements, which measure the capital adequacy of a bank based on its standalone capital strength and risk profile.

Accordingly, overseas operations of a bank through its branches will be covered in both the above scenarios.
Following types of capital are measured:
Tier-1 capital, core funds on hand to manage losses so that a bank can continue operating and,
Tier-2 capital, a secondary supply of funds available from the sale of assets once a bank closes down
Capital Adequacy Ratio = (Tier I + Tier II + Tier III (Capital funds)) /Risk weighted assets
The risk weighted assets take into account credit risk, market risk and operational risk.
The Basel III norms stipulated a capital to risk weighted assets of 8%. However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%.
Let's consider a hypothetical example to illustrate the concept of Capital Adequacy Ratio (CAR) in the context of an Indian bank.

Scenario:

Bank XYZ is a leading commercial bank in India. At the end of the financial year, the bank's financial statement shows the following figures:
Total Tier 1 Capital (CET1 Capital + AT1 Capital): ₹50,000 crore
Total Tier 2 Capital: ₹20,000 crore
Risk-Weighted Assets (RWA): ₹400,000 crore
Calculation:
CAR = (Total Tier 1 Capital + Total Tier 2 Capital) / Risk-Weighted Assets
In this scenario:
Total Tier 1 Capital = ₹50,000 crore
Total Tier 2 Capital = ₹20,000 crore
RWA = ₹400,000 crore
CAR = (₹50,000 crore + ₹20,000 crore) / ₹400,000 crore = ₹70,000 crore / ₹400,000 crore = 0.175 or 17.5%
Interpretation:
The calculated Capital Adequacy Ratio (CAR) for Bank XYZ is 17.5%. This means that the bank has capital (both Tier 1 and Tier 2) equivalent to 17.5% of its risk-weighted assets, providing a buffer to absorb losses.

In this example, Bank XYZ's CAR of 17.5% indicates that it is well above the regulatory minimum, signifying that the bank is financially stable and has a strong capital base to cover potential losses and risks. This level of CAR inspires confidence among investors, depositors, and regulatory authorities in the bank's ability to weather adverse economic conditions, making it a robust and reliable financial institution in the Indian banking sector.

Detailed Analysis:

The Capital Adequacy Ratio (CAR) in India, governed by the Reserve Bank of India (RBI), is a crucial measure that ensures banks have enough capital to absorb losses and meet their obligations. India follows the Basel III framework, which outlines the components of CAR. Here is a detailed analysis of these components:

1. Common Equity Tier 1 (CET1) Capital:
Definition: CET1 capital is the core equity capital of a bank. It includes common equity shares, retained earnings, and other comprehensive income. CET1 capital is the highest quality of capital and the most reliable form of loss-absorbing capacity.

Significance: CET1 capital is at the top of the hierarchy because it provides the most stable and highest-quality capital base for a bank. It acts as a cushion against losses during economic downturns, ensuring that a bank remains solvent even in adverse situations.

2. Additional Tier 1 (AT1) Capital:
Definition: AT1 capital consists of financial instruments that absorb losses when a bank's capital falls below a certain level. These instruments include perpetual bonds and preferred stocks.
Significance: AT1 capital provides flexibility to banks, allowing them to issue instruments that can absorb losses in a going-concern situation. These instruments are particularly helpful for banks to raise capital without diluting existing shareholders' stakes substantially.

3. Tier 2 Capital:
Definition: Tier 2 capital includes subordinated debt and other instruments that can absorb losses in the event of a winding-up of the bank. These instruments have a lower ranking than AT1 capital and CET1 capital in terms of loss-absorption.
Significance: Tier 2 capital provides an additional layer of protection, ensuring that even if a bank exhausts its CET1 and AT1 capital, there is still a buffer to absorb losses. It enhances the overall resilience of the banking sector.

4. Risk-Weighted Assets (RWA):
Definition: RWAs represent a bank's assets weighted by their risk level. Different categories of assets carry different risk weights. For instance, loans to governments are considered less risky than loans to private entities, and hence, they have different risk weights.
Significance: RWA ensures that the capital adequacy requirement is in proportion to the risk taken by a bank. Riskier assets require more capital as a buffer, whereas less risky assets require comparatively lesser capital. This dynamic allocation of capital ensures that banks are adequately capitalized based on the riskiness of their assets.

5. Calculation of Capital Adequacy Ratio (CAR):
Definition: CAR is *calculated as a percentage* of a bank's total capital (CET1 capital + AT1 capital + Tier 2 capital) to its Risk-Weighted Assets (RWA).
Significance: CAR *represents the overall financial health and stability of a bank*. It ensures that a bank can absorb losses and meet its financial obligations, assuring customers, investors, and regulators of the bank's soundness.

In summary, the components of the Capital Adequacy Ratio in India are meticulously designed to ensure the stability and resilience of the banking sector. By balancing the quality of capital, instruments for loss absorption, and risk-weighted assets, the regulatory framework aims to secure the financial system and maintain depositor confidence even in challenging economic environments.

Inadequate 'CAR':
An inadequate Capital Adequacy Ratio (CAR) is a serious issue for banks and financial institutions. CAR represents a bank's capital in relation to its risk-weighted assets, acting as a buffer to absorb losses. When a bank's CAR turns negative, it indicates that the institution's capital is insufficient to cover its potential losses and meet its obligations.
An inadequate 'CAR' can lead to several severe consequences for a bank:
Insolvency: A inadequate CAR means the bank does not have enough capital to cover its losses. In this situation, the bank is effectively insolvent, unable to meet its financial obligations, and is at risk of bankruptcy.
Regulatory Intervention: Regulatory authorities, such as the central bank or financial regulatory body, closely

monitor banks' CAR. If a bank's CAR turns inadequate, regulators may step in to take control of the bank, initiate resolution procedures, or force a merger with a healthier bank.

Loss of Customer Confidence: News of an inadequate CAR can lead to a loss of confidence among depositors and investors. Customers may start withdrawing their funds, exacerbating the bank's liquidity problems.

Limited Lending Capacity: A bank with a inadequate CAR is likely to curtail its lending activities. Reduced lending can impact the economy, especially if the bank is a significant player in the lending market.

Market Perception: A inadequate CAR can harm the overall perception of the banking sector, leading to reduced investor confidence not only in the particular bank but also in other banks within the same jurisdiction.

Economic Impact: If a significant bank faces an inadequate CAR, it can have wider economic implications. Reduced lending, investor confidence, and overall economic stability can be affected, potentially leading to a slowdown in economic growth.

To prevent such situations, regulatory authorities implement strict guidelines and conduct regular stress tests to ensure that banks maintain an adequate capital cushion. Adequate capitalization is crucial for financial institutions to absorb unexpected losses, maintain stability, and uphold the trust of their customers and investors.

While it's not ethical or appropriate to point out specific banks that might have an inadequate or negative Capital Adequacy Ratio (CAR) without up-to-date and accurate information, I can provide a hypothetical scenario to illustrate the concept.

Hypothetical Scenario: Bank ABC's Inadequate CAR

Let's consider a hypothetical bank, Bank ABC. Due to aggressive lending practices and poor risk management, Bank ABC finds itself in a situation where its assets have significantly decreased in value, primarily due to a high number of bad loans. Additionally, the bank has been losing money consistently due to non-performing assets and increased operating expenses.

Balance Sheet of Bank ABC (in billions)

Total Assets: INR 50, CET1 Capital: INR 2, AT1 Capital: INR 0.5, Tier 2 Capital: INR 1

Risk-Weighted Assets: INR 55

Calculation of CAR for Bank ABC:

CAR= (CET1Capital+AT1Capital+Tier2Capital)/Risk−WeightedAssets

CAR = (INR 2B + INR 0.5B + INR 1B) / INR 55B

CAR = INR 3.5B / INR 55B= 6.36 %

CAR=6.36%

In this scenario, Bank ABC's 'CAR' is calculated to be 6.36%, which is significantly lower than the regulatory requirement. A regulatory requirement, for instance, could be 11.5% under Basel III. Therefore, Bank ABC's CAR is inadequate, indicating that it doesn't have enough capital to cover its risks. As a result:

Increased Risk of Insolvency: Bank ABC is at risk of becoming insolvent, especially if it continues to incur losses and its capital base further erodes.

Regulatory Interventions: Regulatory authorities would likely intervene, imposing strict measures on the bank, possibly mandating it to raise capital urgently or restricting its lending activities.

Limited Lending Capacity: Bank ABC would have to limit its lending activities, reducing its ability to support economic growth through loans to businesses and individuals.

Investor and Depositor Confidence: Investors and depositors would lose confidence in Bank ABC. They might withdraw their investments and deposits, leading to a liquidity crisis for the bank.

Market Perception: The market would perceive Bank ABC as a risky institution, affecting its ability to attract investors and partners. Credit rating agencies might downgrade its credit ratings, making it costlier for the bank to borrow funds.

This example illustrates the serious consequences of having an inadequate or negative CAR, emphasizing the importance of prudent risk management and capital adequacy for banks to maintain financial stability and public trust.

Governing Law

In India, the regulations and guidelines related to the Capital Adequacy Ratio (CAR) for banks are primarily issued by the Reserve Bank of India (RBI). The RBI is the central banking institution, which regulates and supervises the banking sector in India. The RBI formulates and enforces the banking regulations, including those pertaining to capital adequacy, to ensure the stability and integrity of the Indian financial system.

The key sources of regulations related to CAR in India include:

RBI Guidelines and Circulars:

The RBI issues circulars and guidelines specifying the capital adequacy requirements for banks operating in India. These guidelines are regularly updated to align with international standards, such as the Basel framework.

Basel Framework:

India, like many other countries, follows the Basel framework developed by the Basel Committee on Banking Supervision (BCBS). The Basel framework establishes international standards for banking regulations, including those related to capital adequacy. RBI aligns India's banking regulations with the Basel guidelines, ensuring consistency with global best practices.

Banking Regulation Act, 1949:

The Banking Regulation Act serves as the primary legislation governing banking operations in India. It grants the RBI the authority to regulate and supervise banks, including setting capital adequacy standards.

Prudential Norms:

RBI sets prudential norms that banks must adhere to, including those related to capital adequacy. These norms define the minimum capital requirements, risk-weighted assets calculation, and other aspects related to capital adequacy.

RBI Notifications and Press Releases:

RBI issues notifications and press releases that provide updates on changes in banking regulations, including capital adequacy requirements. These notifications are essential sources for banks to stay informed about regulatory changes.

Banks operating in India are required to comply with these regulations and guidelines to maintain a healthy capital adequacy position, ensuring financial stability and the ability to absorb unexpected losses. It's important for banks and financial institutions to stay updated with the latest circulars, notifications, and guidelines issued by the RBI to ensure compliance with the regulatory framework.

GROUP: iv, PAPER: 20 C

ENTREPRENEURSHIP

and Startup (ENTS)

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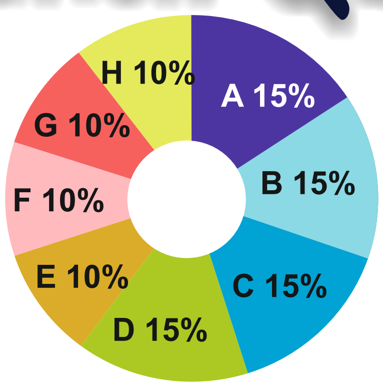
Your Preparation Quick Takes



Syllabus Structure

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

Entrepreneurship and Startup

Startup Financing - Concept

For any startup business, early-stage financing is essential when moving from the startup to the real business life cycle. In this phase, sales and firm growth begin. The objective of early-stage financing is to create a stable and permanent organization. This is popularly known as Startup financing. However, startup financing is the process of funding a business through equity financing or debt financing. Equity financing, such as money from a venture capital firm, doesn't need to be repaid because it offers capital in exchange for partial ownership. A business startup fund can offer the capital required to launch and support the expansion of a new company. Having startup capital for a firm has several advantages. The ability to supply the financial resources required to launch a new business is perhaps its most significant advantage.

Methods of Financing to Startups

Different popular methods or alternatives of financing to startups are discussed below:

Sources	Explanation
Bootstrapping	Entrepreneur invest his own savings.
Love Money	Entrepreneur borrows from his family, friends or relatives. It is also known as patient capital.
Angel Investors	Rich investors directly invest in startups & help in operations as mentor in exchange of share in profit.
Venture Capital	Invests in startups having high growth potential in exchange of ownership in firm.
Incubators	It could be company organization or university, etc. and offers monetary as well as non monetary help.
Crowdfunding	Entrepreneurs list their products & prospects on crowdfunding platform & those who find the idea worthy can contribute to it.
Government grant & subsidies	Government offers grants & subsidies to the companies to boost the startup culture and investment in the country.
Bank Loans	This is among the oldest and most common ways of obtaining funds, however, they rarely fund the startups.
Partnership	In exchange for the help, partner may want exclusive access to your products, distribution rights, or more.

Source: https://efinancemanagement.com/sources-of-finance/for-startups

1. Self-funding or Bootstrapping:

Self-funding, also known as bootstrapping, is an effective way of startup financing, especially when you are just starting your business. Self-funding or bootstrapping should be considered as a first funding option. First-time entrepreneurs often have trouble getting funding without first showing some traction and a plan for potential success. You can invest from your own savings or can get your family and friends to contribute. This will be easy to raise due to less formalities/compliances, plus less costs of raising. In most situations, family and friends are flexible with the interest rate. Different methods of self-financing are Trade credit, Factoring, Leasing etc.

2. Crowdfunding:

Crowdfunding is one of the newer ways of funding a startup that has been gaining lot of popularity lately. It's like taking a loan, pre-order, contribution or investments from more than one person at the same time.

This is how Crowdfunding works – An entrepreneur will put up a detailed description of his business on a Crowdfunding platform. He will mention the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers can read about the business and give money if they like the idea. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can contribute money toward helping a business that they really believe in.

3. Angel Financing:

Angel investors are individuals with surplus cash and a keen interest to invest in upcoming startups. They also work in groups of networks to collectively screen the proposals before investing. They can also offer mentoring or advice alongside capital. Angel investors have helped to start up many prominent companies, including Google, Yahoo and Alibaba. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting a up to 30% equity. They prefer to take more risks in investment for higher returns. Some of popular Angel Investors in India are Indian Angel Network, Mumbai Angels, Hyderabad Angels etc. Angel Investment as a funding option has its shortcomings too. Angel investors invest lesser amounts than venture capitalists (covered in next point).

4. Small Business Credit Cards:
A number of credit card issuers specifically cater to the small business market, and many come with special benefits: cash back rewards, airline mileage points, and other perks. Some issuers require that the card be tied to the owner's personal credit score and credit history and a guarantee from the owner. This would mean, of course, that any defaults or late payments on the business credit card would affect your personal credit rating.

5. Family and Friends' Circle:
In startups, often small amount of fund is required. Funds from family members, relatives and friends may be used as source of finance in startups.

6. Venture Capital:
Venture capitals are professionally managed funds who invest in companies that have huge potential. They usually invest in a business against equity and exit when there is an IPO or an acquisition. VCs provide expertise, mentorship and acts as a litmus test of where the organisation is going, evaluating the business from the sustainability and scalability point of view. A venture capital investment may be appropriate for small businesses that are beyond the startup phase and already generating revenues.

7. Funding From Business Incubators and Accelerators:
Early-stage businesses can consider Incubator and Accelerator programs as a funding option. Found in almost every major city, these programs assist hundreds of startup businesses every year. Though used interchangeably, there are few fundamental differences between the two terms. Incubators are like a parent to a child, who nurtures the business providing shelter tools and training and network to a business. Accelerators so more or less the same thing, but an incubator helps/assists/nurtures a business to walk, while accelerator helps to run/take a giant leap.

These programs normally run for 4-8 months and require time commitment from the business owners. You will also be able to make good connections with mentors, investors and other fellow startups using this platform. In India, popular names of incubators and accelerators are Amity Innovation Incubator, AngelPrime, CIIE, IAN Business Incubator, Villgro, Startup Village and Tlabs.

8. Funds by Winning Contests:
An increase in the number of contests has tremendously helped to maximize the opportunities for fund raising. It encourages entrepreneurs with business ideas to set up their own businesses. In such competitions, you either have to build a product or prepare a business plan.

9. Bank Loans:
Normally, banks are the first place that entrepreneurs go when thinking about funding. The bank provides two kinds of financing for businesses. One is working capital loan, and other is funding. Working Capital loan is the loan required to run one complete cycle of revenue generating operations, and the limit is usually decided by hypothecating stocks and debtors. Funding from bank would involve the usual process of sharing the business planand the valuation details, along with the project report, based on which the loan is sanctioned.

10. Loans from Microfinance Providers or NBFCs:
What do you do when you can't qualify for a bank loan? There is still an option. Microfinance is basically access of financial services to those who would not have access to conventional banking services. It is increasingly becoming popular for those whose requirements are limited and credit ratings not favoured by bank. Similarly, NBFCs are Non-Banking Financial Corporations are corporations that provide Banking services without meeting legal requirements of a bank.

11. Government's Assistance:

The Government of India launched 10,000 crore Startup Fund in Union budget 2014-15 to improve startup ecosystem in India. The Government of India has been maintaining the trend of investing in order to boost innovative startups.

12. Product Pre-sale:

Selling of products before launching is an often-overlooked but it is highly effective way to raise the finance for startups.

13. Selling Assets:

In case of startup financing, selling of existing assets can help to meet the short-term fund requirements. After overcoming the crisis situation, the startup can again buy back the assets.

14. Credit Cards:

Business credit cards are among the most readily available ways to finance a startup and can be a quick way to get instant money. If you are a new business and do not have a sufficient money, you can use a credit card. However, keep in mind that the interest rates and costs on the cards can build very quickly, and carrying that debt can be detrimental to a business owner's credit.

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 Manoj Kumar Anand, Council Member, ICMAI along with CMA Rajendra Singh Bhati, Council Member, ICMAI extending greetings to Shri Arjun Ram Meghwal, Hon'ble Union Minister of Law and Justice & MoS for Culture and Parliamentary Affairs on 22nd September, 2023.

CMA Baldev Kaur Sokhey, Director (Finance) at NBCC, and CMA Shri Hrishikesh Kumar, Executive Director (Finance) at NBCC, visited the Institute of Cost Accountants of India (ICMAI) and had a meeting with President CMA Ashwin Dalwadi and other Central Council Members, CMA TCA Sriniwas, CMA M K Anand & CMA Navneet Kumar Jain. They had discussions related to the overall development of the profession.

CMA Dr. V. Murali, Council Member, ICMAI, CMA Rajendra Singh Bhati, Council Member, ICMAI and CMA Dr. Kaushik Banerjee, Secretary, ICMAI along with the representatives of ICSB and ICSI during the International Training Programme jointly conducted by ICSB and ICSI on 15-16 September, 2023 in Dhaka, Bangladesh.

Meeting with Mr. Rajesh Jadhavar, Joint Registrar of the Co-Operative Department by CMA Harshad Deshpande: CCM & CMA Mahendra Bhombe, RCM- WIRC for discussions on the upcoming empanelment of CMA firms for the fiscal years 2023-26

CMA Navneet Kumar Jain CCM met with IMA's Board Chairs Mr Richard T Brady, Sunil Deshmukh ji & President Delhi Chapter of IMA-Sanjay Garg ji during Convocation Ceremony of IMA- Delhi Chapter and had discussions on reciprocal exemptions.

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