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Azadi Ka Amrit Mahotsav

CMA Student E - Bulletin

FINAL

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Behind every successful business decision, there is always a CMA

Azadi Ka Amrit Mahotsav

CONTENTS

KNOWLEDGE Update

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

GROUP: iii, PAPER: 13

CORPORATE

LAWS & COMPLIANCE (CLC)

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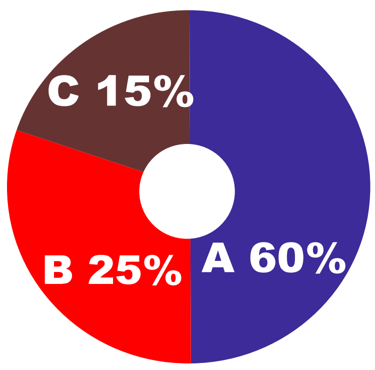
Your Preparation Quick Takes



Syllabus Structure

A Companies Act **60%**

B Other Corporate Laws **25%**

C Corporate Governance **15%**

Learning Objectives:

Read the Study Material minutely.

- For details or if you don't understand Study Material or the section is important to identify the topic, then refer to Bare Act, otherwise reference to Bare Act is not necessary. For Company Law, book by Avtar Singh is recommended. For other laws Institute Study Material is sufficient.
- The words used in any of the texts as mentioned above should be understood by immediate reference to the Dictionary.
- The main points coming out in any of the provisions should be either underlined or written in separate copy which has to be repeated again and again.
- Theoretical knowledge should be adequate and clear before solving practical problems.
- Don't write wrong English. It changes the meaning and therefore answer may be wrong even when the student's conception is clear. Also don't make spelling mistakes.

Corporate Governance in Family Businesses

The International Finance Cooperation defines a family business as follows:

"A family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants. The terms "family business", "family firm", "family company", "family-owned business", "family-owned company", and "family-controlled company" will be used interchangeably through- out the Handbook to refer to family businesses." (IFC, 2008)

The Family Business Governance Handbook drafted by the International Finance Corporation, one of the institutions of the World Bank Group, is a useful document that gathers important facts and elements on how to develop a family business. This Handbook determines that:

"Family businesses constitute the world's oldest and most dominant form of business organizations. In many countries, family businesses represent more than 70 percent of the overall businesses and play a key role in the economy growth and workforce employment. In Spain, for example, about 75 percent of the businesses are family-owned and contribute to 65 percent of the country's GNP on average. Similarly, family businesses contribute to about 60 percent of the aggregate GNP in Latin America." (IFC, 2008)

As examples of well- known family businesses we can find: Salvatore Ferragamo, Benetton, and Fiat Group in Italy; L'Oreal, Carrefour Group, LVMH, and Michelin in France; Samsung, Hyundai Motor, and LG Group in South Korea; BMW, and Siemens in Germany; Kikkoman, and Ito-Yokado in Japan; and finally Ford Motors Co, and Wal-Mart Stores in the United States of America.

Family owned companies have specific problems due to its nature, their constitution, and their managerial systems. As the company grows, more members, children, grandchildren and so on are incorporated into the family and different types of interests and relationships are generated within the company. The larger the company, the greater the conflict of interest are. Problems arise when the sentimental value collides with the entrepreneurial values. This is why conflicts in family Companies must be handled properly with the help of a consultant or lawyer. These conflicts may bring bad consequences to these kind companies, that may end up destroying the family, the company or both.

It must be understood that the same corporate governance norms that is commonly used for other companies might not apply to these ones. The family factor brings along a different way of looking the company, its strengths and also its weaknesses. A balance between the emotional factor of family with the profitable factor of business.

Features of Corporate Governance in a Family Owned Companies in India

In India , business was traditionally a family business. Even now 99% of the corporate houses are owned by individuals or families. Nothing wrong in that . In fact growth of family business is quite substantial.

1.full time directors/ other directors and senior management personnel are either from the family or related to the family members.

2. Formation of coterie is common.

3. Control and ownership is diluted with shareholding being diluted on passing of generation.

4.Conflit of interest is very common where personal interest of the promoter conflicts with the company interest. However, proper procedures are followed as per the Act to avoid legal complication.

5.Emotions are attached and therefore , some decision are taken which may not be managerially correct.

6. Where the family members are united, the non family directors/ managers are defunct in decision making process. Where family is divided, there are more problems like confusion in leadership, delay in decision making, distrust of outside stakeholders etc. The stability, reputation and performance is effected.

7. Some families have clear cut roles of the family members in business with structured succession planning, allotment of each company to each member to avoid conflict.

8. Personal image of the chairman/MD? Directors is very important whci determines the reputation.

9.M any hard-core professional avoid working in family business for obvious reasons.

10. Death/ disability of senior member in the family reluts to laeadresship nadamangement crisis/

CG in listed family managed companies.

There are many companies, few big, listed in stick exchange which are owner/ prompter managed. However, CG , being highly regulated in India, do not effect such ownership issue as the compliances are codified and the company has to follow the same. Hence, CG in listed family managed company cannot be isolated from the CG in non family business.

Emerging issues in CG in family managed companies in India.

(i) Separation of ownership and management: In few companies in India, the main promoter or owner have chosen to be investor and not to a part of management even as part time chairman. The whole Board of directors are non owners and are hard core professionals.

(ii) Family members acquiring professional courses from reputed institutes.

(iii)Promoters are encouraging professionals in the organisation.

(iv)Promoters are more focused on compliances to avoid loss of reputation which may result to price fall in the share market.

(v) Role and leadership clarity decided at board level

(vi) Owners are accepting and honouring opinion of managers.

(vii) Family's social and emotional issues are being satisfied by forming trusts/ foundations which are separate from the business entity, without nay conflict of interest.

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STRATEGIC FINANCIAL MANAGEMENT (SFM)

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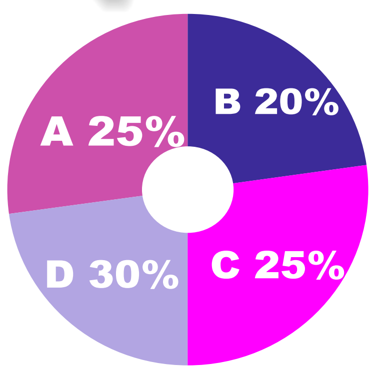
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

After studying this section on Strategic Financial Management, you will be able to:
- understand the direct and indirect quotations
- know the European terms and American terms

Section C & Study Note 8: Security Analysis and Portfolio Management

B. Industry Analysis

The second step in the fundamental analysis of securities is industry analysis. After conducting the economic analysis, if the investor is convinced that the economy and the market are attractive from the standpoint of investing in stock market, the investor should proceed to consider those industries that promise the most opportunities in the coming years.

The significance of industry analysis can be established by considering the performance of other industries too in a similar fashion. The analysis indicates the value to investors in selecting certain industries while avoiding others. The analysis also establishes the need for investors to continue analyzing industries by showing the inconsistency of industry performance over consecutive yearly periods.

Industry analysis usually involves several steps. As a first step, industries are analyzed in terms of their stage in the life cycle (Industry Life Cycle Analysis). The idea is to assess the general health and current position of the industry. This may be followed by an assessment of the position of the industry in relation to the business cycle and macroeconomic conditions (Business Cycle Analysis); an analysis of the competitive structure (Structural Analysis) prevailing in the industry and a study of the impact of changes in government policy on the industry.

- **Key Characteristics in an Industry Analysis**

The most important of the characteristics that are to be evaluated in an Industry Analysis can be enumerated as given below:

1. Past sales and earnings performance.
2. Permanence of the industry.
3. The attitude of the government towards the industry.
4. Labor conditions within the industry.
5. The competitive conditions as reflected by the existence of the entry barriers and
6. The stock prices of the firms in the industry relative to their earnings.

I. Industry Life Cycle Analysis

Experts believe that industries evolve through four main stages - the pioneering stage, the expansion stage, the stabilization stage and the declining stage. There is an obvious parallel in this idea to human development. The concept of an industry life cycle could apply to industries or product lines within industries.

(a) Pioneering Stage

In this stage, rapid growth in demand occurs. Although a number of companies within a growing industry will fail at this stage because they will not survive the competitive pressures, most experience rapid growth in sales and earnings, possibly at an increasing rate. The opportunities available may attract a number of companies, as well as venture capital. At the pioneering stage of an industry, it can be difficult for security analysts to identify the likely survivors. By the time it becomes apparent who the real winners are, their prices may have been bid up considerably beyond what they were in the earlier stages of development.

(b) Expansion Stage

In this second stage of an industry's life cycle the survivors from the pioneering stage are identifiable. They continue to grow and prosper, but the rate of growth is more moderate than before. At the expansion stage of the cycle, industries are improving their product and perhaps lowering their prices. They are more stable and solid, and at this stage they often attract considerable investment funds. Investors are more willing to invest in these industries now that their potential has been demonstrated and the risk of failure has decreased.

(c) Stabilization Stage

Finally, industries evolve into the stabilization stage (or maturity stage), at which the growth begins to moderate. Sales may still be increasing, but at a much slower rate than before. Products become more standardized and less innovative, the market place is full of competitors, and costs are stable rather than decreasing through efficiency moves and so on. Industries at this stage continue to move along, but without significant growth. Stagnation may occur for considerable period of time., or intermittently.

(d) Declining Stage

In this stage of the industrial life cycle - decline is indicated on either a relative or absolute basis. Clearly, investors should seek to spot industries in this stage and avoid them.

This classification of industry evolvement is helpful to investors in assessing the growth potential of different companies in an industry. Based on the stage of the industry, they can better assess the potential of companies within that industry.

The pioneering stage may offer the highest potential returns, but also offers the greatest risk. Several companies in a particular industry will fail, or do poorly. Such risk may be appropriate for some investors, but many will wish to avoid the risk inherent in this stage. The maturity stage is to be avoided by investors interested primarily in capital gains. Companies at this stage may have relatively high dividend pay-outs because their growth prospects are fewer. These companies often offer stability in earnings and dividend growth.

It is the second stage i.e., expansion, that is probably of most interest to investors. Industries that have survived the pioneering stage often offer good opportunities as the demand for their products and services is growing more rapidly than the economy as a whole. Growth is rapid, but orderly, an appealing characteristic to investors.

II. Business Cycle Analysis

A second way to analyze industries is by their operating ability in relation to the economy as a whole. That is, some industries perform poorly during a recession whereas others are able to weather it reasonably well. Some industries move closely with the business cycle, outperforming the average industry in good times and underperforming it in bad times. Investors, in analyzing industries, should be aware of these relationships.

Most investors usually seek growth companies. In growth industries, earnings are expected to be significantly above the average of all industries and such growth may occur regardless of setbacks in the economy. Clearly, one of the primary goals of fundamental security analysis is to identify the growth industries of the near and far future.

At the opposite end of the scale are the defensive industries, which are least affected by recessions and economic adversity. Food has long been considered one such an industry. Public utilities might also be considered a defensive industry.

Cyclical industries are most volatile - they do unusually well when the economy prospers and are likely to be hurt more when the economy falters. Durable goods are a good example of the products involved in cyclical industries. Autos, refrigerators, and stereos, for example, may be avidly sought when times are good, but such purchases may be postponed during bad times because consumers can often make do with the old units.

These three classifications of industries according to economic conditions do not constitute an exhaustive set. Additional classifications are possible and logical. For example, some industries are interest-sensitive, that is, particularly sensitive to expectations about changes in interest rates. The financial services industry, the banking industry, and the real estate industry are obvious examples of interest-sensitive industries. Another is the building industry.

What are the implications of these classifications to investors? To predict performance of an industry over shorter periods of time, investors should carefully analyze the stage of the business cycle and the likely movements in interest rates. If the economy is heading into a recession, cyclical industries are likely to be affected more than other industries, whereas defensive industries are the least likely to be affected. With such guidelines, investors may make better buy or sell decisions. Similarly, an expected rise in interest rates will have negative implications for the savings and loan industry and the home-building industry, whereas an expected rise in interest rates will have opposite effects.

These statements reinforce the importance of market analysis. Not only do investors need to know the state of the economy and market before deciding to invest, but such knowledge is valuable in selecting, or avoiding particular industries.

To be continued…………….

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STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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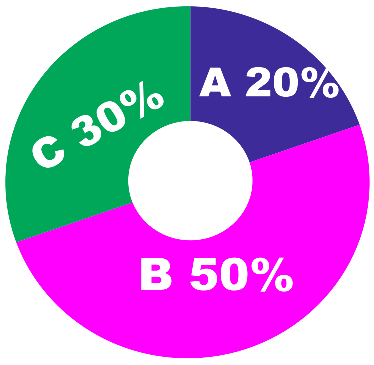

Syllabus Structure

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

Learning Objectives:

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

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

Key Performance Indicators

01.00 Warm Up

Measurement makes the matters meaningful. Measurement enables comparison and evaluation. Measurement leads to bench marking. Data cannot be interpreted without measurement. So comes the sacred saying: If you can't measure it, you can't improve it. Evidently, measurement of the performance of an enterprise has to be continually perpetual.

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

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

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

02.00 KPIs

Key Performance Indicators (KPIs) are a set of quantifiable measures that an enterprise uses to gauge and monitor its performance over a period. These metrics can also be used to determine the enterprise's progress in achieving its strategic and operational goals, and also to compare its finances and performance against other businesses within its industry.

Listed hereunder are the Key Performance Indicators (KPIs) considered significant, in general, for any enterprise from an overall point of view:

1. Value of Production
2. Contribution
3. Profitability
4. Return on Net Worth
5. Earnings per Share
6. Dividend Payout Ratio
7. Operating Productivity
8. Employee Productivity
9. Fixed Capital Productivity
10. Working Capital Productivity
11. Cost of Equity
12. Cost of Debt
13. Weighted Average Cost of Capital
14. Liquidity
15. Solvency

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

03.00 Different KPIs for Different Facets: The Example of Airlines

Cost-Control and Cost-Reduction are probably the two words one hears the most while talking about the performance of airlines nowadays. Due to COVID and the whole pandemic situation, airlines are suffering enormous pressure to reduce costs. Only those airlines that manage to control and reduce costs would survive in the long run. Of course, in the first step, airlines do focus on the most prominent cost reduction measures such as reducing workforce, provider streamlining, expenditure freeze, etc. However, it is inevitable to have the right Key Performance Indicators (KPI) in place to do anything like that.

Apart from the routine KPIs that facilitate control of operational costs, airlines do innovate something more precious to focus on different and abnormal facets of an airline's operation. Listed below are some of them:

i. **Compensation Costs:** One of the most valuable but also very complicated KPIs is Compensation Costs that the airline is forced to pay for passenger compensations. All compensations are related to flight irregularities, such as delays or flight cancellations. This KPI provides enormous value since it directly shows the impact of the operations on the bottom line.

ii. **Delay Costs:** The Delay Cost KPI reflects a cost-control KPI that is straightforward. Delay costs can be derived by multiplying the delay minutes with the standard delay costs per minute. However, for whatever reason, many airlines still tend to show only the delay minutes or reasons instead of related costs. In order to have a more precise value, an airline-specific delay cost model can be set up by considering aspects such as type of flight (national/international), aircraft type, airport, etc.

iii. **Cost of Operational Changes:** Summarized, the KPI calculates all costs occurring due to ad-hoc operational changes. Actions like aircraft changes, equipment changes, gate changes, crew changes, etc. It perfectly shows the importance of a stable flight plan. Or conversely, it perfectly illustrates the costs related to an unstable flight schedule.

iv. **Missed Connex:** Passengers that are booked on a connecting flight but miss the onward flight reflect a considerable cost factor. Additionally, they are also impacting the operations. To have a stronger cost focus, costs can be assigned to each misconnex passenger. Accordingly, the amount of misconnex expenses can be derived instead of the passenger number only.

v. **Mishandled Baggage:** Mishandled or lost baggage additionally reflects a source for operational costs. These are the costs that actually can be avoided. Similar to the Misconnex KPI,—in a first step— simply the number of mishandled / lost bags can be calculated. Then, as a second step, costs can be assigned to each bag and different cost drivers incorporated.

04.00 The Story of IndiGo

IndiGo is India's largest passenger airline with a reported market share of 55.5% as of January, 2022. The airline primarily operates in India's domestic air travel market as a low-cost carrier with focus on three pillars - offering low fares, being on-time and delivering a courteous and hassle-free experience.

Indigo started its voyage as a Low Cost Carrier (LCC) in 2006, when all other airlines were struggling with fall in demand. Since then, IndiGo aggressively pursued route expansion to consolidate its presence in the Indian commercial aviation market. With an operational philosophy of 'low fares do not mean low quality', IndiGo has been able to sustain its innovative business

Industry experts opine that the innovations made in the business model such as on time performance, simplicity, hassles-free philosophy, service at economy rates, sale and leaseback of aircraft, cleanliness, fleet of young aircrafts (average age below three years), cooperative crew members and quick turnarounds of less than 30 minutes between flights, have aided IndiGo to fly with profitability. The obvious fact is that IndiGo monitors all these KPIs scrupulously.

As a result, IndiGo has grown from a carrier with one plane in 2006 to a fleet of 276 aircraft in 2022. It, now, has a total destination count of 97 with 73 domestic destinations and 24 International.

05.00 Quick Take

Prudent computation and diligent interpretation of KPIs facilitate competitive performance. Added to that, every enterprise can have its own unique innovations too to control its different facets!

Azadi Ka Amrit Mahotsav

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DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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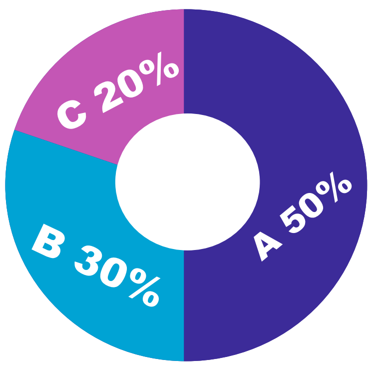
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

PENALTY FOR UNDER REPORTING & MISREPORTING

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

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

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

- Under Reporting of Income; and
- Misreporting of Income

<u>Penalty for under-reporting and misreporting of income [Sec. 270A]</u>

The

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

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

<u>Taxpoint</u>

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

<u>Quantum of penalty [Sec. 270A(7) & (8)]</u>

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

<u>Cases of under-reporting of income [Sec. 270A(2)]</u>

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

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

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

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

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

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

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

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

Illustration 1

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

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

Assessed income as reduced by basic exemption

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

Illustration 2

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

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

Illustration 3

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

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

Solution

Computation of penalty

Particulars		Amount
Under-reported income		
Total income computed by the Assessing Officer	A	1,20,00,000
Total income as per return of income	B	80,00,000

Book profit computed by the Assessing Officer	C	2,10,00,000
Book profit as per return of income	D	2,00,00,000
Under-reported income [(A – B) + (C – D)]		**50,00,000**
Tax on under-reported income		
Tax on A	P	40,06,080
Tax on B	Q	24,96,000
Tax on C	R	35,05,320
Tax on D	S	33,38,400
Tax on Under-reported income [(P – Q) + (R – S)]	T	16,77,000
Penalty u/s 270A		
Minimum (being 50% of T)		8,38,500
Maximum (being 200% of T)		33,54,000

Illustration 4

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

Solution

Computation of penalty

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

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CORPORATE FINANCIAL REPORTING (CFR)

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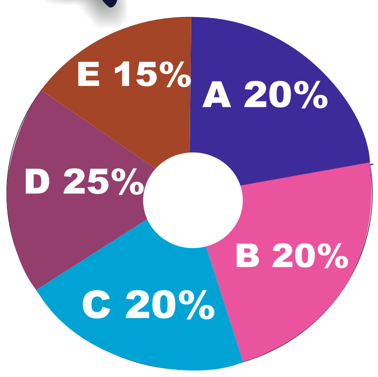
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

Corporate Financial Reporting

In this issue we shall present the format of balance sheet (including statement of changes in equity) and statement of profit and loss for Ind AS complied companies as applicable after amendment 2021 made to the Schedule III of the Companies Act 2013.

Following are the format of financial statements for preparation of balance sheet and statement of profit and loss as provided in Division II of Schedule III of the Companies Act 2013 as amended in 2021 and applicable from 01-04-2021 for all Ind AS complied companies.
PART I -BALANCE SHEET
Name of the Company….
Balance Sheet as at…
(Rupees in…..)

Particulars	Note No.	Figures as at the of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
ASSETS			
1.Non-current assets			
a) Property, Plant and Equipment			
(b) Capital work-in-progress			
(c) Investment Property			
(d) Goodwill			
(e) Other Intangible assets			
(f) Intangible assets under development			
(g) Biological Assets other than bearer plants			

(h) FinancialAssets			
(i) Investments			
(ii) Trade receivables			
(iii) Loans			
(iv) Others (to be specified)			
(i) Deferred tax assets (net)			
j) Other non-current assets			
2. Current assets			
(a) Inventories			
(b) Financial Assets			
(i) Investrnents			
(ii) Trade receivables			
(iii) Cash and cash equivalents			
(iv) Bank balances other than (iii) above			
(v) Loans			
(vi) Others (to be specified)			
(c) Current Tax Assets (Net)			
(d) Other Current assets			
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity			
(a) Equity Share capital			
(b) Other Equity			
LIABILITIES			

1.Non-current liabilities			
(a) Financial Liabilities			
(i) Borrowings			
(ia) Lease liabilities			
(ii) Trade Payables:- (A) total outstanding dues of micro enterprises and small enterprises; and (B) total outstanding dues of creditors other than micro enterprises and small enterprises.			
iii)Other financial liabilities (other than those specified in item (b), to be specified)			
(b) Provisions			
(c) Deferred tax liabilities (Net)			
(d) Other non-current liabilities			
2.Current liabilities			
(a) Financial Liabilities			
(i) Borrowings			
(ia) Lease liabilities			
(ii) Trade Payables: - (A) total outstanding dues of micro enterprises and small enterprises; and (B) total outstanding dues			

of creditors other than micro enterprises and small enterprises.			
(iii) Other financial liabilities (other than those specified in item (c)			
(b) Other current liabilities			
(c) Provisions			
(d) Current Tax Liabilities (Net)			
Total Equity and Liabilities			

See accompanying notes to the financial Statements.

STATEMENT OF CHANGES IN EQUITY

Name of the Company…………..

A. Equity Share Capital

(1) Current reporting period

Balance at the beginning of the current reporting period	Changes in Equity Share Capital due to prior period errors	Restated balance at the beginning of the current reporting period	Changes in equity share capital during the current year	Balance at the end of the current reporting period

(2) Previous reporting period [same format]

B. Other Equity

(1) Current reporting period

Column Headings (7 columns)

0	1	2	3	4	5	6	7

0. No Heading
1. No Heading
2. Share application money pending allotment
3. Equity component of compound financial instruments
4. Reserves and Surplus (4 sub columns under)
   (a) Capital Reserve
   (b) Securities Premium
   (c) Other Reserves (specify nature)
   (d) Retained Earnings
5. No Heading (6 sub columns under)
   (a) Debt instruments through Other Comprehensive Income
   (b) Equity Instruments through Other Comprehensive Income
   (c) Effective portion of Cash Flow Hedges
   (d) Revaluation Surplus
   (e) Exchange differences on translating the financial statements of a foreign operation
   (f) Other items of Other Comprehensive Income (specify nature)
6. Money received against share warrants
7. Total

Row Particulars (10 rows: 0, 0 and A to H)

0. No Particular
0. No Particular
A. Balance at the beginning of the current reporting period
B. Changes in accounting policy/prior period errors
C. Restated balance at the beginning of the current reporting period
D. Total Comprehensive Income for the current year
E. Dividends
F. Transfer to retained earnings
G. Any other change (to be specified)
H. Balance at the end of the current reporting period

Thus, the table format of Other Equity is as shown below.

0	1	2	3	4	5	6	7
0		Share...	Equity,,,	...	....	....	Total
A	Balance...						
B	..						
C	..						
D	..						
E	..						
F	..						
G	..						
H	Balance...						

(2)Previous Reporting Period

Note: Remeasurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss shall be recognised as a part of retained earnings with separate disclosure of such items along with the relevant amounts in the Notes or shall be shown as a separate column under Reserves and Surplus.

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company…………………….

Statement of Profit and Loss for the period ended ………………………

(Rupees in …………….)

	Particulars	Note No.		Figure for current reporting period		Figures for the previous reporting period
I.	Revenue from operations					
II.	Other Income					
III.	Total Income (I + II)					
IV.	**EXPENSES** Cost of Material Consumed					

	Purchase of stock in trade					
	Changes in inventories of finished goods, stock in trade and work in progress					
	Employee benefit expense					
	Finance Costs					
	Depreciation and amortization expense					
	Other expenses					
	Total Expenses IV					
V.	Profit/(loss) before exceptional items or tax (I-IV)					
VI.	Exceptional Items					
VII.	Profit/(loss) before tax (V-VI)					
VIII.	Tax Expense (1) Current Tax (2) Deferred Tax					
IX.	Profit/(loss) for the period of continuing operation (VII-VIII)					
X.	Profit/(loss) from discontinued operations					
XI.	Tax expense for discontinued operation					
XII.	Profit/(loss) from discontinued operations (after tax) (X-XI)					
XIII.	Profit/(loss) for the period (IX+XII)					

XIV.	Other comprehensive income A (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items B (i) that will not be reclassified to profit or loss (ii) Items that will be reclassified to profit or loss income tax relating to items that will be reclassified to profit or loss					
XV.	Total Comprehensive Income for the period (XIII+XIV) (Comprising Profit (Loss) and other comprehensive income for the period)					
XVI.	Earnings per equity share (for continuing operation):					

	(1) Basic (2) Diluted					
XVII.	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted					
XVIII.	Earnings per equity share (for discontinued and continuing operations (1) Basic (2) Diluted					

See accompanying notes to the financial statements.

The general instructions for preparation of balance sheet and statement of profit and loss shall be taken up in the next issues.

GROUP: iv, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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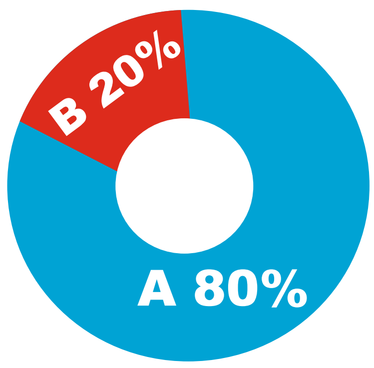

Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- Allowing of ITC
- General provision of determining tax
- Power of Appellate Authority
- Advance ruling
- License of GST practitioner
- Job works
- E-way bill
- Anti Profiteering

INDIRECT TAX

Choose the correct option from the followings –

1. In which of the following case ITC will be allowed

(a) Supply of food and beverage
(b) Providing outdoor catering
(c) Providing beauty treatment
(d) Motor vehicle used for transportation of goods

2. Which of the following statement is correct in relation to the general provisions relating to the determination of tax

(a) Where any order is required to be issued in pursuance of the direction of the Appellate Authority or Appellate Tribunal or a court, such order shall be issued within three years from the date of communication of the said direction.
(b) An opportunity of hearing shall be granted even if where a request is not received in writing from the person chargeable with tax or penalty
(c) The proper officer shall, if sufficient cause is shown by the person chargeable with tax, grant time to the said person and adjourn the provided that no such adjournment shall be granted for more than one time to a person during the proceedings
(d) The interest on the tax short paid or not paid shall be payable whether or not specified in the order determining the tax liability

3. Appellate Authority has no power to enhance or modify or annul the decision or order of adjudicating authority subordinate to him – in this context which of the following statement is incorrect

(a) if the assessee has filed the appeal to the AA, the Commissioner GST (i.e. Revisionary Authority) cannot make the review of such order u/s 108 of the CGST Act, 2017
(b) The Commissioner cannot exercise the powers u/s 108(1) of the CGST Act, 2017 if the appeal period (i.e. 3 months for filing the appeal has not expired or more than 3 years have expired after passing the decision or Order sought to be reviewed
(c) If the Order is going to be taken up for revision now and no decision has been taken, then it cannot be taken up by the Commissioner
(d) The order has already been passed u/s 108 of the CGST Act, 2017. Therefore, the Commissioner cannot take the order again for revision

4. Fee for filing Appeal to Appellate tribunal for every lakh rupees of tax or input credit involved or the difference in tax or input tax credit involved or the amount of fine, fee or penalty determined in the order appealed against is minimum

(a) Rs 1000/-
(b) Rs 2000/-
(c) Rs 3000/-
(d) Rs 5000/-

5. The meaning of the term "Advance Ruling" is

(a) Order by National Company Law Tribunal
(b) Order by National Company Law Appellate Tribunal
(c) Decision provided by the GST Authority for any proposal for supply of either goods or service
(d) Knowing the law in advance

6. In which of the following Advance ruling can not be sought

(a) applicability of a notification issued under the provisions of this Act
(b) admissibility of input tax credit by registered person
(c) determination of time and value of supply of goods or services or both
(d) classification of any goods or services or both

7. In which of the following Advance ruling will not be void where the advance ruling pronounced by the Appellate Authority has been obtained by the applicant or the appellant by
(a) whether applicant is required to be registered
(b) fraud
(c) suppression of material facts
(d) misrepresentation of facts

8. Promoting courses of Foreign university in India, considered to be
(a) General service
(b) Related service
(c) Special service
(d) Intermediary service

9. GST Practitioner License would be valid for
(a) One year
(b) Three years
(c) Five years
(d) Until it's cancelled by the relevant authority

10. As per section 2(68) of CGST Act, 2017 the meaning of the term 'job work' is –
(a) Any service provided to any person as per requirements
(b) a person undertaking any treatment or processing of goods belonging to another person
(c) a person undertaking any treatment or processing of goods belonging to another registered person
(d) Providing of treatment or processing of goods to convert it into finished goods on behalf of other person.

11. Which of the following statement is not correct in relation to transportation of goods in batches or lots without invoice –
(a) the supplier shall issue the complete invoice before dispatch of the first consignment
(b) the supplier shall issue a delivery challan for each of the subsequent consignments, giving reference of the invoice
(c) each consignment shall be accompanied by copies of the corresponding delivery challan along with a duly certified copy of the invoice
(d) after the delivery of last consignment each certified copy of invoice will be considered original invoice

12. The goods can be supplied directly from the place of business of job worker by the principal only when the principal declares the place of business of the job worker as his additional place of business in this context which one is to be considered exception –
(a) If job worker is unregistered
(b) The principal is engaged in the supply of notified goods
(c) The principal is engaged in the supply in notified areas
(d) Job worker is responsible for accountability of Inputs/ Capital Goods

13. In relation to job works principal must submit details in every quarter in
(a) FORM GST ITC-02
(b) FORM GST ITC-03
(c) FORM GST ITC-04
(d) FORM GST ITC-05

14. In which of the below mentioned case generation of E waybill is mandatory even if the value of the goods is less than Rs 50000/-
(a) A supply made for a consideration (payment) which may not be in the course of business
(b) Inter-State Transport of Handicraft goods by a dealer exempted from GST registration
(c) Supply of goods from one branch to another
(d) Barter/Exchange – where the payment is by goods instead of in money

15. Transporter of goods will generate e-way bill on basis of information shared by the registered before movement of goods in

(a) Part A of FORM GST EWB-01
(a) Part B of FORM GST EWB-01
(b) Part C of FORM GST EWB-01
(c) Part D of FORM GST EWB-01

16. Validity period is one day in case of Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship is
(a) Up to 20 km
(b) Up to 50 km
(c) Up to 100 km
(d) Up to 200 km

17. No person (including a consignor, consignee, transporter, an e-commerce operator or a courier agency) shall be allowed to furnish the information in Part A of Form GST EWB-01 in respect of following registered persons, whether as a supplier or a recipient – in this context which of the statement is not correct
(a) A person paying tax under composition scheme or under Notification No. 2/2019 CT (R) dated 07.03.2019 has not furnished the statement for payment of self-assessed tax for 2 consecutive quarters
(b) A person paying tax under regular scheme has not furnished the returns for 2 consecutive months
(c) A person paying tax under reverse charge has not furnished the returns for 2 consecutive months
(d) A person paying tax under regular scheme has not furnished GSTR-1 (Statement of outward supplies) for any 2 months or quarters, as the case may be

18. As per section 171(3A) of the CGST Act, 2017 any registered person has profiteered under sub-section (1), such person shall be liable to pay penalty equivalent to
(a) five per cent of the amount so profiteered
(b) ten per cent of the amount so profiteered
(c) fifteen per cent of the amount so profiteered
(d) twenty per cent of the amount so profiteered

19. Director General of Anti-Profiteering determines that a registered person has not passed on the benefit of the reduction in the rate of tax on the supply of goods or services or the benefit of input tax credit to the recipient by way of commensurate reduction in prices – in this context which of the order passed by the Authority is not relevant –
(a) reduction in prices
(b) return to the recipient, an amount equivalent to the amount not passed on by way of commensurate reduction in prices along with interest
(c) imposition of further GST as specified under the Act
(d) cancellation of registration under the Act

20. Which of the following is not handled by Goods and Service Tax Network (GSTN)
(a) Residential status
(b) Various returns
(c) Registrations
(d) Payments & Refunds

ANSWERS

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

75 Azadi Ka Amrit Mahotsav

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GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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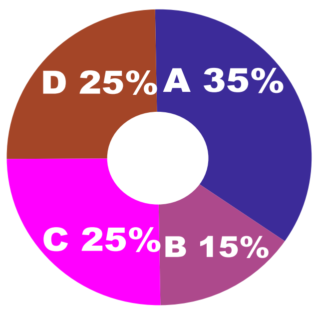

Syllabus Structure

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

Learning Objectives:

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

Understanding Non-Cost Income and Non-Cost Expenses for Maintenance of Cost Records and Cost Audit

Introduction

Understanding the basic concept of identification and treatment of non-cost expenses and non-cost income is the basis for arriving at true and fare view of cost of production of any product or services.

The non-cost income and non-cost expenses can broadly be classified into following categories-

i. Abnormal and non-recurring income or expenses
ii. Any form of penalties and fines paid or received
iii. Expenses or income not related to the production or service activity
iv. Expenses or income not related to the period of which the cost records or audit pertains to.

Description

Pursuant to Rule 5(1) of the (Companies Cost Records and Audit) Rules 2014 (CCRA Rules 2014), every company under CCRA Rules including all units and branches thereof, shall, in respect of each of its financial year maintain cost records in Form CRA-1. CRA-1 basically provides for an exhaustive list of the components or particulars of each cost element. Following are some of the examples that show the non-cost component in each cost element that the company should exclude from its calculation of cost of production or service.

1 . Material Cost

- Abnormal loss of material due to any mishandling shall not form part of the material cost.
- Loss due to fire/Cyclone/Natural calamity, shall not form part of the material cost.
- Over and above the normal loss or any demurrage /detention charges.

- Penalty or levy by transport or other authorities.
- Income from sale of scrap material which is abnormal in nature or over and above the normal scrap.
- Forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till the date of its payment or otherwise shall not form part of the material cost.

2. Employees Cost

- Separation cost related to voluntary retirement/ retrenchment is to be amortized. The non-amortized amount is to be excluded from employees cost of that period.
- Abnormal payment made to employees with respect to abnormal idle time. Abnormal idle time can be caused by events like unplanned maintenance or breakdown of machinery.
- Penalties or damages paid to statutory authorities with respect to employee's payments. For example, penalty or interest due to late deposit of TDS by the employer.

3. Utilities

- Penalty or damages paid to statutory authorities for self-generated utilities for own consumption shall not form part of cost of generation of such utilities. Examples of such costs are penalty for non-compliance of pollution standard.
- The cost of abnormal consumption of material for generation of utilities.

4. Repair and maintenance

- Cost of major overhaul shall be amortized on a rational basis. The unamortized amounts are to be excluded from the cost of repair and maintenance for that period.
- Any unplanned repairs and maintenance, cost of spare parts etc. are not to be included in the repairs and maintenance cost.

5. Fixed Assets and Depreciation

- Impairment loss of assets shall be excluded from cost of production.
- Loss due to fire/Cyclone/Natural calamity etc.
- Loss/profit on sale of assets.
- Depreciation on assets shall not be considered in case the cumulative depreciation exceeds the original cost of assets and net residual value.

6. Overheads

- Overheads relating to abnormal consumption of material, abnormal generation of self-generated utilities, abnormal repair and maintenance are to be excluded from the overheads.

7. Administrative Overheads

- Expenses in nature of fines, penalties or damages paid to statutory authorities or other third parties shall not form part of administrative overheads.

8. Transportation Expenses

- There are two scenarios for transport cost - one is the manufacturer having his own facility and another is the manufacturer hires transportation facility.

  In case of manufacturer having his own facility, the cost is to be determined by adding up various cost elements such as salaries, wages, repairs, direct expenses etc. Any abnormal portion of such cost elements are to be excluded.

  In case the manufacturer has hired for transportation facility any payment made in nature of demurrage/penalty shall not be considered as part of cost of transportation.

9. Royalty and technical knowhow

- Penalties and damages paid to statutory authorities or third parties shall not form part of amount of royalty and technical knowhow fees.

10. Research and development cost

- Research and development cost can be
  - Incurred for development and improvement of an existing process
  - Or new process
- Penalties and damages paid to statutory authorities or third parties shall not form part of Research and development cost.
- Research and development cost attributable to specific cost object shall be assigned to that cost object directly. Research and development cost not attributable to specific product shall not form part of the cost of the product.

11. Packing Expenses

- It is required by the company to maintain separately for domestic and export packing. Packing can be self-manufactured or can be procured from third parties. Abnormal consumption of materials for manufacturing the packing material shall not form part of packing cost. Any payment in nature of demurrage or penalty charges to the third parties, suppliers shall not form part of packing cost.

- The forex component of imported packing material cost shall be converted at the rate on the date of transaction. Any subsequent changes in the exchange rate till payment or otherwise shall not form part of the packing material cost.

13. Capacity determination

- Capacity shall be determined in terms of production or equivalent machine or man hours.

  Normal capacity shall be determined vis-à-vis installed capacity after carrying out adjustments for
  - Holidays, normal shutdown days and normal idle time
  - Normal time lost in batch change over
  - Time loss due to preventive maintenance and normal break down of equipment
  - Loss of efficiency due to ageing of equipment

- Number of shifts

➢ By monitoring the historical capacity utilization if the capacity utilization of current year varies and is significantly lower than the average of the same of three previous year, then necessary adjustment should be made to the fixed cost of the current year on account of lower capacity utilization to arrive at fair cost of production.

Disclosure / Presentation

Under CCRA Rules 2014, on of the annexures to the cost audit report i.e Part D - 2, relates to "Statement for Profit Reconciliation'. This statement specifies the incomes and expenses that are not considered in calculation of 'Margin as per cost accounts' of a product under audit. Each and every non-cost income and non-cost expenses of current year and previous year are to be disclosed separately in this statement.

GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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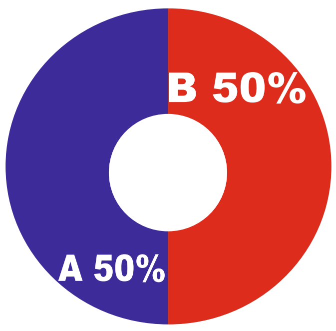

Syllabus Structure

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

Learning objectives:

After studying this section on Strategic Performance Management and Business Valuation, you will be able to:
- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Strategic Performance Management and Business Valuation

(Based on Study Material, MTP, RTP and Previous End-Terms Questions)

Short-type questions

Write True or False:

1. Discounted cash flow approach of valuation of business is superior to the P/E ratio approach if the future cash earnings are well predictable.
2. Valuation of firm and valuation of equity in discounted cash flow approach provide identical results despite using different definitions of FCFF and discount rates.
3. Book value is total value of all valuable assets including fictitious assets, less external liabilities.
4. The cost of capital of a merged firm is different from both cost of capital of the acquiring firm and the target firm as synergy effects should be taken and risk complexion of both the firms changes on merger.
5. A positive net profit after taxes always implies that there is an economic value addition to the firm.

Answer Hints:

Question	1	2	3	4	5
Answer	True	True	False	True	False

Multiple Choice Questions:

1. **Two firms A and B have earnings after taxes of Rs. 60,000 and Rs 40,000 respectively, with identical EPS of Rs 10. What will the EPS of the firm be after merger for share exchange ratio as 0.5:1, where A acquires B?**
   (a) Rs. 10
   (b) Rs 15
   (c) Rs. 12.5
   (d) Rs. 20

2. **Vertical merger is the merger of two firms which are involved:**
   (a) in similar line of business
   (b) in different stages of distribution and production in same business activity
   (c) in different/unrelated business activities and
   (d) None of these

3. **What is the value of a firm with cost of capital 20%, with profit after taxes Rs. 33.6 lakh, with extraordinary income of Rs. 6 lakh, tax rate is 40 per cent?**
   (a) Rs. 150 lakh
   (b) Rs. 300 lakh
   (c) Rs. 180 lakh
   (d) Rs. 120 lakh

4. **Determine the market price per share of a firm having equity capital of Rs. 100,000 (face value of Rs. 50 per share) the profit after taxes is Rs. 12,000 and P/E ratio is 5.**
   (a) Rs 20

(b) Rs. 30
(c) Rs 50
(d) Rs 60

5. **Which is the best method among these for valuation of a firm where not much data about its profit is available and its shares are not actively traded?**
(a) Market value
(b) Discounted Cash Flow
(c) Net asset-based approach
(d) None of these

Answer Hints:

Question	1	2	3	4	5
Answer	c	b	a	b	c

Example 1

The following particulars are available in respect of a corporate:
(i) Capital employed, Rs 500 crore.
(ii) Operating profits, after taxes, for last three years are: Rs 80 crore, Rs 100 crore, Rs 90 crore; current year's operating profit, after taxes, is Rs 105 crore.
(iii) Riskless rate of return, 10 per cent.
(iv) Risk premium relevant to the business of corporate firm, 5 per cent.
You are required to compute the value of goodwill, based on the present value of the super profits method. Super profits are to be computed on the basis of the average profits of 4 years. It is expected that the firm is likely to earn super profits for the next 5 years only.

Answer

Determination of goodwill, using super profit method (Rs crore)

Average profits (Rs 80 crore + Rs 100 crore + Rs 90 crore + Rs 105 crore = Rs 375 crore)/ 4 years	93.75
Less: Normal profits (Rs 500 crore × 0.15)	75.00
Super profits	18.75
Multiplied by the PV of annuity for 5 years at 15 per cent	(×) 3.352
PV of super profits/Value of goodwill	62.85

Example 2

The XYZ Ltd wants to acquire ABC Ltd by exchanging its 1.6 shares for every share of ABC Ltd. It anticipates to maintain the existing P/E ratio subsequent to the merger also. The relevant financial data are furnished below:

Particulars	XYZ Ltd	ABC Ltd
Earnings after taxes (EAT) (Rs)	15,00,000	4,50,000
Number of equity shares outstanding (N)	3,00,000	75,000
Market price per share (MPS) (Rs)	35	40

Based on the above information, you are requested to answer the following questions:

(a) What is the exchange ratio based on market prices?

Answer:

Exchange ratio based on market prices: $= \frac{1.6 \times \text{Rs. } 35}{\text{Rs. } 40} = 1.4$

(b) What is pre-merger EPS and the P/E ratio for each company?

Answer:

Particulars	XYZ Ltd	ABC Ltd
Earnings after taxes (EAT) (Rs)	15,00,000	4,50,000
Number of equity shares outstanding (N)	3,00,000	75,000
EPS (i)/ (ii) (Rs)	5	6
P/E ratio (MPS / EPS) (times)	7 (Rs 35/5)	6.67 (Rs 40/6)

(a) What was the P/E ratio used in acquiring ABC Ltd.?

Answer:

Implied P/E ratio in the acquisition of ABC Ltd:$= \frac{\text{Market Price of shares offered to XYZ Ltd}}{\text{Current EPS of ABC Ltd.}} = \frac{\text{Rs. } 56}{6} = 9.33$ times

(b) What is EPS of XYZ Company after the acquisition?

Answer:

EPS of XYZ Company after merger: $= \frac{\text{Rs. } 15{,}00{,}000 + \text{Rs. } 4{,}50{,}000}{3{,}00{,}000 + 1{,}20{,}000} =$ Rs 4.64

(c) What is the expected market price per share of the merged company?

Answer:

Rs 4.64 7 times = Rs 32.48.

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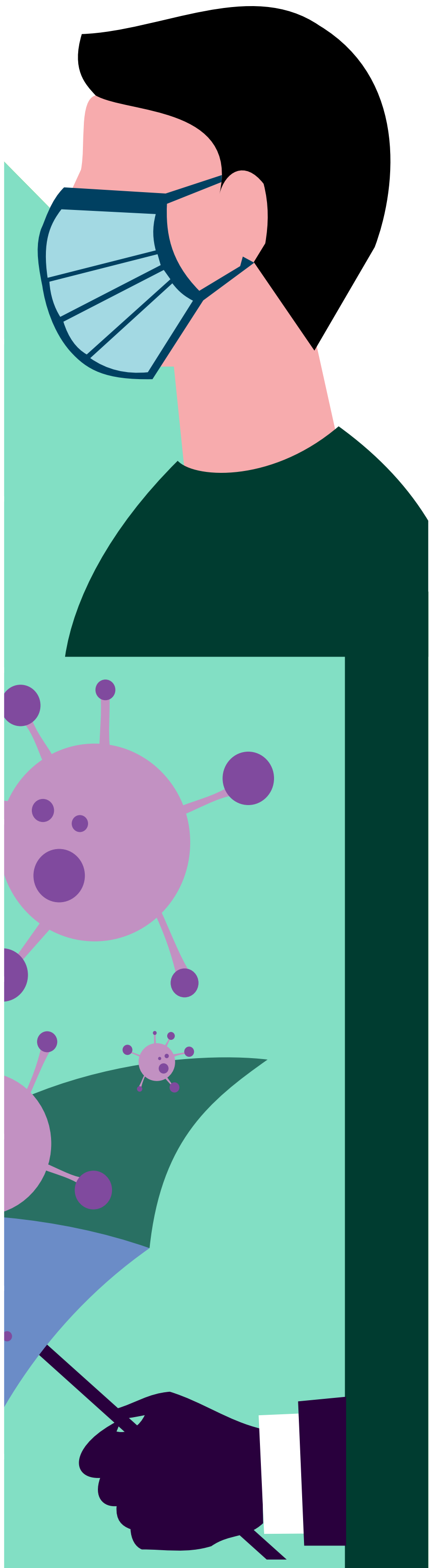
Examination TIME TABLE

Day & Date	Final Examination Syllabus-2016 Time 2.30 p.m. to 5.30 p.m.
27th June, 2022 (Monday)	Corporate Laws & Compliance (Paper 13) (Group - III)
28th June, 2022 (Tuesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
29th June, 2022 (Wednesday)	Strategic Financial Management (Paper 14) (Group - III)
30th June, 2022 (Thursday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
1st July, 2022 (Friday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
2nd July, 2022 (Satudray)	Cost & Management Audit (Paper 19) (Group -IV)
3rd July, 2022 (Sunday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
4th July, 2022 (Monday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)



PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 **Solve Excercises given in Study Note**

03 **Assess Yourself**

04 **Appear For Examination**

FINISHED

SUBMISSIONS

Updation of E-Mail Address/Mobile:

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

Dear Students,

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

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

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

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

Message from

Directorate of Studies

Dear Students,

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), and we also have conducted Webinar Sessions for the benefit of the students. 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.

You must be aware that India is celebrating Azadi Ka Amrit Mahotsav, which is an initiative of the Government of India to celebrate and commemorate 75 years of independence and the glorious history of its people, culture and achievements. Along with pan India, your Institute has also observed and took part in various meaningful activities throughout the year. We also expect that our students should also take part in the development of the nation and make the country proud.

"Freedom has only one motto, may our country be happy and prosperous" …….

let you all observe the message cited above.

- 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.

Please refer the link mentioned below:

https://icmai.in/studentswebsite/index.php

GOOD LUCK
Be prepared and be successful

Few Snapshots

60th National Cost Convention - 2022

Glimpses of National Students Convocation 2022 on 29 April 2022 at Kolkata

Glimpses of National Students Convocation 2022 on 29 April 2022 at Kolkata

CMA P Raju Iyer, President of the Institute with Swami Shukadevananda, Secretary, RKM Vivekananda College [Autonomous], Chennai & Other Officials of the College during the Board of Studies meeting held on 19th March 2022 at College Campus in Chennai.

Inauguration of CMA Classes & Mentoring of Students for CMA Curriculum, Value Added Courses such as GST, Forensic Audit, Internal Audit Members Present - CMA P Raju Iyer, President Along with [L to R] CMA Rakesh Shankar, Dr. S. Padmavathi, Principal of Shri Shankarlal Shasun Jain College for Women, Dr. S Rukmani, Vice Principal, Dr. C. Vimaladevi, Ms. Deepa Shridhar, Co-ordinator - CMA Support Centre

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