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CMA Student E - Bulletin

150 YEARS OF CELEBRATING THE MAHATMA

FINAL

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Behind every successful business decision, there is always a CMA

150 YEARS OF CELEBRATING THE MAHATMA

Message from The Chairman

CMA Manas Kumar Thakur
Chairman,
Training & Education Facilities (T& EF) Committee

CMA MANAS KUMAR THAKUR
Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)

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MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings,

> ***"True education must correspond to the surrounding circumstances or it is not a healthy growth"- M.K. Gandhi***

Education is not a problem, education is an opportunity and above all, education is the means to the answers to all questions.

What I believe that everyone is a genius and what is needed is to develop a passion for learning. If you do, you will never cease to grow. Success is no accident. It is hard work, perseverance, learning, studying and most of all love of what you are doing or learning to do. The great aim of education is not knowledge but action.

*We have stepped in to June and I know those want to appear in the June,2019 term of examination, are very busy in their preparation. Considering the aspects, the **Directorate of Studies is trying continuously to guide you by publication in e-form, Mock Test Papers (both questions and answers), Work Book (both questions and answers), monthly publication of E-bulletin & Webinar Sessions**; all are for your learning and practice. I hope, you are sincerely following those publications and preparing yourself.*

The true purpose of education is to make minds not careers. Education is not the answer to the question, education is the power and knowledge is the wealth.

I must pay my sincere thanks to all the academicians who are always encouraging you by putting their valuable input in the monthly publications of these E-bulletins.

*I am hopeful to see your success and afterwards your contribution in the Nation's growth. Please believe on your own strength and march forward. **"Educations purpose is to replace an empty mind with an open one".***

Wishing you all a bright future,

CMA Manas Kumar Thakur

Be a CMA, be a Proud Indian

"Behind every successful business decision there is always a CMA"

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150 YEARS OF CELEBRATING THE MAHATMA

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

CONTENTS

150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

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GROUP: 3, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

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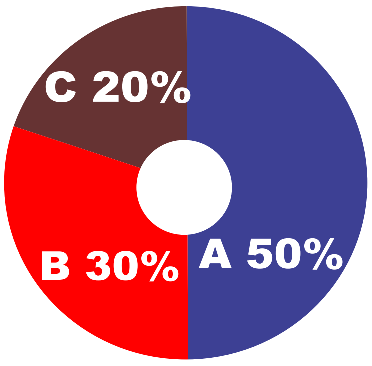

Syllabus Structure
A Companies Act **50%**
B Other Corporate Laws **30%**
C Corporate Governance **20%**

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.

Foreign Exchange Management Act (FEMA)

1.0. **Introduction.**

FEMA ,1999 to replace the FERA, 1973 and came into force on the 1st day of June,2000. To enforce provisions of the Act, the Central Govt. have established the Directorate of Enforcement .

Act is to consolidate and amend the law relating to foreign exchange with objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India.

This Act extends to the whole of India and applies to all branches, offices and agencies outside which have any transaction with India.

i) The Act has 47 sections which are basically prohibitory . There are 5 rules made by Central Govt. and 22 Regulations which give lot of general permission on various transactions. Therefore the act has to be read with Regulations to understand the prevailing law.

ii) RBI is the regulator, reporting to CG.FEMA is to be read with Reserve Bank of India Act, which regulates powers and functions of RBI.

iii) Prohibits dealings in foreign exchange except through an authorised person. no person can, without general or special permission of the RBI –

(a) Deal in or transfer any foreign exchange or foreign securities to any persons not being an author ised person.

(b) Make any payment to or for the credit of any person resident outside India in any manner.

(c) Receive otherwise through an authorised person, any payment by order or on behalf of any person resident outside India.

(d) Enter into any financial transaction in India as

2.0. **Definitions.**

i) Current account transaction: which is not a capital account transaction (drawal of foreign currency denotes drawal from A.P. including opening of LC.

ii) Capital account transaction: a transaction by which asset or liability of an Indian resident will change with regard to any foreign country and vice versa.
iii) Repatriation and non repatriation: remittable outgo of INR.
iv) Persons Resident in India: residing in India for more than 182 days in financial year but does not include a person who has gone out of India or has come to India for employment/business where the period of stay is indefinite.

v) NRI: Non resident Indian – Indian citizen resident outside India.

vi) PIO: A person of Indian origin (PIO) is one who at any time held Indian passport or whose father/grand father was a citizen of India.

vii) foreign national non resident

viii) foreign national resident in India: staying in India for 182 or more days.

ix) Money changers: only to change currency- no power to remit.

x) Banks designated as FE branch or overseas branch can do this job. Non FE branch can line up with FE branch.

License is given by RBI. can be cancelled on non compliance of RBI guidelines or any conditions of licence.

AP can release FE as follows:

i) Business trip- up to US$ 2500
ii) Medical treatment-1 lakh US$+ 2500 for maintenance
iii) Study- 1 lakh US$
iv) Private visit- 1000 US$
Employment - 1 lakh

3.0. **Foreign Direct Investment**
(I) FDI is allowed in automatic route as per sectoral cap and with permission of Govt. beyond sectoral cap.
(ii) FDI prohibited in retail, atomic energy, lottery, gambling and betting, chit fund and nidi company, agriculture, housing and real estate, manufacturing of tobacco related products.

vi) Foreign Direct Investment via automatic route

As per the current policy of the Government of India all items / activities for foreign direct Investment up to hundred percent

falls under the automatic route except :
(a) ones which are requiring an industrial licence (b) all proposals in which the foreign collaborator had a previous venture/ tie up in India and five years have not lapsed after the break up of the tie up. (c) All proposals relating to acquisition of existing shares in an existing Indian Company by a foreign investor and (d) All proposals falling outside notified sectoral policy/ caps or under sectors in which foreign direct investment is not permitted.

vii) Foreign Direct Investment requiring approval of Govt. of India

For all activities which are not covered under the automatic route, one has to obtain the approval from the MOF, GOI and a composite approvals involving foreign investment and foreign technical collaboration would be required.

4.0. **Reporting of Inflow.**

i) Indian company to report inward remittance within 30 days and issue of securities within 30 days to the concerned Regional Office of RBI with proper documentation and CA certificate on valuation of shares.
ii) The above reporting has to be consolidated and filed within 30th June on annual basis.
iii) Equity instrument have to be issued within 180 days of the receipt/debit of the amount, unless permission to retain further is obtained from RBI.

5.0. **Transfer of Shares.**

Transfer of shares between resident and non-resident and vise versa is allowed as per the guidelines by SEBI and RBI. General permission is available except shares of banks and financial services company. The transfers are to be reported to RBI.

6.0. **Prior permission of RBI.**

(a) Indian to Resident Gift.

i) not to exceed 5% of paid up capital;
ii) within sectoral cap;
iii) transfer and transferee are close relative;
iv) the value of security by the holder transferred as gift do not exceed US$ 25,000 during the calendar year.

(b) Resident to non-resident (Sale)

i) security in financial sector;
ii) attracting SEBI take over code.

7.0. **Conversion ECB to Equity.**
i) allowed within the automatic route with sectoral cap on conversion;
ii) pricing as per SEBI regulations.

8.0. **Depository Receipt (DR)**

i) DRs are negotiable instruments issued outside India by depository bank on behalf of Indian company who hold the shares of the company as custodian bank. DR traded in American SE is called ADR and it traded elsewhere is called GDR.
ii) Companies listed in India are eligible to list in India. May issue ADR/DR subject to international listing requirements. Unlisted companies in India have to simultaneously list in India.

iii) There is no end use restriction except investment in SE/real estate.

iv) Pricing should be related to domestic price.

v) Report to RBI within 30 days of close of issue.

9.(a) **Direct Investment outside India.**

i) Prohibited – real estate and banking. Indian banks operating in India may have JV/WOS outside with permission of RBI.
ii) General permission – (a) out of funds in RFC a/c, (b) bonus shares, (c) is not permanently resident in India, out of foreign currency resources.
iii) Permission to sell the above shares.

(b) **WOS/JV** – Investment including loans and guarantees.

(c) **Method of Funding.**

i) Drawal of FE from AD/Bank.
ii) Capitalisation of exports and other dues.
iii) Swap of shares including exchange of ADR/GDR (valuation to be made by registered Indian/foreign merchant banker).
iv) Proceeds of ECB/ADR/GDR/FCCB.
v) Balance in EEFC a/c.

10. **Indirect Investment Overseas.**

i) No person shall issue or transfer a foreign security general permission is available for -

(a) FCCB upto US$ 500 million with minimum maturity period of 5 years without put and call option to be used for industrial sector only. Above the amount, specific RBI approval.
(b) to report with details within 30 days of issue.

11. Investment by a foreign resident in proprietorship or partnership in India is not permitted without RBI approval.

12. **Acquisition and transfer of immovable property outside India.**

i) Prohibited, other than properties already held as on 8-7-47 and anybody getting as gift from such person.
ii) Can purchase from RFC account.
iii) Corporates may be permitted to acquire office or residence for the employees.

13. **Acquisition and transfer of immovable property in India.**

i) Person resident outside India is categorized as NRI or a PIO and a foreign national (non-PIO). ii) An Indian citizen resident outside India may acquire immovable property (through gift, inheritance or purchase) other than agricultural land and farm house to any Indian citizen or person of Indian origin.

iii) Person resident outside India can hold, own, transfer or invest in Indian currency, security or immovable property in India, if such asset was acquired by him when he was resident in India or inherited from a person who was a resident of India.

iv) Requisition of a resident allowed it on lease for maximum 5 years.

v) Citizens of Pakistan, Bangladesh, Srilanka and Afganisthan, China, Iran, Nepal and Bhutan cannot hold property (other than lease) without prior RBI permission.

14. **Establishment in India a branch or other place of business by a foreign company is allowed.**

i) PRO is prohibited from having a branch/other office in India without RBI approval, unless such approval is received by RBI/IRDA. Only specific activities as permitted shall only be permitted. Profit can be remitted.

ii) No RBI approval required for establishing only unit in SE2.

15. **Export of Goods and Services.**

i) In case of service, without declaration but shall repatriate the foreign exchange to India.

ii) The export value shall realizable within 6 months (15 months if goods were stored in warehouse outside India). A.D. may grant extension. For exports by status holder, the realizable time is 12months. RBI may take penal action on non-realizable within time.

iii) If advance received, the shipment should be made within one year. No refund of advance without RBI approval.

16. **Realization, Repatriation and holding of Foreign Currency.**

i) The FE should be realized at the earliest and shall repatriate the same to India or shall to A.P. or keep it is designated account with A.D.

ii) Realized means received in INR by the person concerned.

iii) FE receipt is to be sold to A.P. within 7 days (in case of inheritance, gift, salary income) and 90 days in case of others.

iv) Unspent amount on foreign tour to be surrendered within 90 days (180 days in case of traveler cheques).

v) Foreign currency a/c may be opened and inward remittance may be kept.

vi) A.P. may possess FC as authorized.

vii) No limit on possession of foreign coins.

17. **Authorized Person.**

i) RBI authorizes a person to deal in FE or FS. As dealer or money changer unit, which can be revoked on non-compliance of any law or terms and conditions of licensing.

ii) May take such declaration as instructed by RBI from any person to safeguard the transaction.

iii) Utilization for FE for purpose not declared or surrendered as per law shall be violating the provisions of law.

iv) RBI may inspect the AP. AP to report to RBI on regular basis.

18. **Contravention and Penalties.**

i) Contravention is breach of provisions of FEMA and any rules/regulations/notifications thereunder. Compounding is the process of voluntarily admitting the guilt and seeking redressal.

19. **Foreign Technical Collaboration.**

Foreign Technology Transfer fees & Royalty payments

The following is the comparative chart on the remittance of technology fees and the royalty payments through the automatic The royalty will be calculated on the basis of the net ex-factory sale price of the product, exclusive of excise duties, minus the cost of the standard bought-out components and the landed cost of imported components, including ocean freight, insurance, custom duties, etc.erout

Details	After issue of Press Note 8 (2009 series) with effect from 16-12.2009
Lump sum payments	No limit now
Royalty payable	No restrictions - subject to FEMA (Current Account Transactions) Rules, 2000
Duration of royalty payments	No restrictions
Royalty limits are	Net of taxes and are calculated according to standard conditions

GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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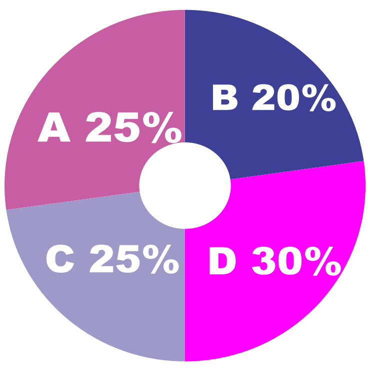

Syllabus Structure

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:

compute European call option price
calculate European put option price

Strategic Financial Management

Illustration 1

Consider a European call option on a stock when there are ex-dividend dates in two months and five months. The dividend on each ex-dividend date is expected to be Rs.0.50. The current share price is Rs.40, the exercise price is Rs.40, the stock price volatility is 30% per annum, the risk-free rate of interest is 9% per annum, and the time to maturity is six months. Find out the European call price.

Solution:

Black and Scholes developed formula for determining the price of a call option and the formula is as follows:

$C= S_0N(d_1) - k e^{-rT}N(d_2)$
where C denotes price of the call option,
S_o is spot price of the underlying stock,
K is the strike price of the option,
t denotes time to expiration of option expressed in year,
r is the risk-free rate of interest,
$N(d_1)$ denotes the cumulative probability up to d_i (i= 1, 2) following standard normal distribution,
$d_1 = [l_n(S_0/k) + (r + ^2 / 2)t] / t$; is the volatility of the price of underlying stock ,
and $d_2 = d_1 - t$

In this case the present value of the dividend is subtracted from the stock price before using Black – Scholes. The present value of the dividends is

$$= 0.5e^{-0.1667*0.09} + 0.5e^{-0.4167*0.09} = 0.9741$$

The option price can therefore be calculated from the Black-Scholes formula with S_o = 40 – 0.9741 = 39.0259, K = 40, r = 0.09, σ = 0.3, and T = 0.5. We have

$$d_1 \quad \frac{In \;\; 39.0259/40 \qquad 0.09 \quad 0.3^2/2 \quad 0.5}{0.3\sqrt{0.5}} \quad 0.2017$$

$$d_2 \quad \frac{In \;\; 39.0259/40 \qquad 0.09 \quad 0.3^2/2 \quad 0.5}{0.3\sqrt{0.5}} \quad 0.0104$$

$$N(d_1) \quad 0.5800, N(d_2) \quad 0.4959$$

The call price is:

$$39.0259 \quad 0.5800 \quad 40_e{}^{\;0.09 \quad 0.5} \quad 0.4959 \quad 3.67$$

Illustration 2

What is the price of a European put option on a non-dividend-paying stock when the stock price is Rs. 69, the strike price is Rs. 70, the risk-free interest rate is 5% per annum, the volatility is 35% per annum, and the time to maturity is six months?

In this case,

$$S_0 \quad 69, K \quad 70, r \quad 0.05, \qquad 0.35 \text{ and } T \quad 0.5$$

$$d_1 \quad \frac{\ln(69/70) \quad (0.05 \quad 0.35^2/2) \quad 0.5}{0.35\sqrt{0.5}} \quad 0.1666$$

$$d_2 \quad d_1 \quad 0.35\sqrt{0.5} \qquad 0.0809$$

The price of the European put is

$$70e^{\;0.05*0.5}N(0.0809) \quad 69N(\quad 0.1666)$$

$$70e^{\;0.05*0.5} * 0.5323 \quad 69 * 0.4338$$

$$6.40$$

Illustration 3

Calculate the price of a three-month European put option on a non-dividend-paying stock with a strike price of Rs. 50 when the current stock price is Rs. 50, the risk-free interest rate is 10% per annum, and the volatility is 30% per annum.

Solution:

Black and Scholes also developed formula for determining the price of a put option and the formula is as follows:
$P = Ke^{-rT}N(-d_2) - S_0N(-d_1)$
where P denotes price of the put option,
S_o is spot price of the underlying stock,
K is the strike price of the option,

T denotes time to expiration of option expressed in year,
r is the risk-free rate of interest,

$N(d_1)$ denotes the cumulative probability up to d_i (i= 1, 2) following standard normal distribution,
$d_1 = [l_n(S_0/k) + (r + {}^2/2)T] / T$; is the volatility of the price of underlying stock ,
and $d_2 = d_1 - T$

In the above illustration, S_o = Rs. 50, K = Rs. 50, T = 3/12= $\frac{1}{4}$= 0.25, r = 0.10, = 0.30,
$d_1 = [l_n(50/50) + (0.10+ 0.09 / 2)0.25] / 0.300.25 = 0.2417$
$d_2 = d_1 - 0.300.25 = 0.0917$

The European put price is
$50e^{-0.10\times0.25}N(-0.0917) - 50N(-0.2417)$
$= 50e^{-0.10\times0.25} \times 0.463 - 50 \times 0.4045$
$= 2.37$

Illustration 4

What difference does it make to your calculations in Illustration 3 if a dividend of Rs. 1.50 is expected in two months?

Solution:

In this case we must subtract the present value of the dividend from the stock price before using Black – Scholes. Hence the appropriate value of S_o is

$S_o = 50 - 1.50e^{-0.1667\times0.10} = 48.52$
As before, K = Rs. 50, T= 3/12= $\frac{1}{4}$= 0.25, r = 0.10, = 0.30,
$d_1 = [l_n(48.52/50) + (0.10+ 0.09 / 2)0.25] / 0.300.25 = 0.0414$
$d_2 = d_1 - 0.300.25 = -0.1086$

The European put price is
$50e^{-0.10\times0.25}N(0.1086) - 48.52N(-0.0414)$
$= 50e^{-0.10\times0.25} \times 0.532 - 48.52 \times 0.4835$
$= 3.03$

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STRATEGIC COST MANAGEMENT-DECISIONMAKING (SCMD)

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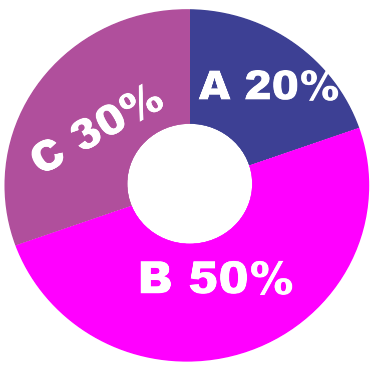

Syllabus Structure

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?

Six Sigma Reduces Costs & Improve Environmental Impact

The Red Flag

Ford's balanced scorecard system provides reporting tools that offer monthly values versus target figures, year-to-date/year-end values against target, and a prioritization system using red/green/yellow evaluations to pinpoint where improvement is needed. Using this evaluation system, the automaker classifies data as:

Green: measures are on or over target.

Yellow: metrics are under target, but better than last year.

Red: results are under target.

In the fall of 2009, data for body paint consumption for the Focus and Kuga were classified as red, thus capturing the attention of plant officials. A quick review of historical data showed basecoat paint consumption stood at 3.74 kg/unit in 2007, while current consumption was 4.18 kg/unit. Sensing an opportunity, Ford officials selected this improvement as a Six Sigma Black Belt project, offering an ideal fit with the One Ford strategy that focuses on "working together effectively as one team."

Six Sigma Black Belt Project

The project began in October 2009 with team member selection. Of the plant's 7,000 employees, more than 50 are Six Sigma Black Belts and another 400 are trained as Green Belts, thus providing a pool of qualified team members to assist with the project. Team leader and Six Sigma Black Belt Martin Fischer based his selections on a candidate's responsibilities, subject- matter expertise and process ownership, and on relative need throughout project development, planning, implementation, and follow up. Other factors included communication skills and the candidate's ability to interact in a team based structure.

Applying the define, measure, analyze, improve, and control (DMAIC) approach, the team began by defining project stakeholders using a suppliers, inputs, process, outputs, customers (SIPOC) analysis. This analysis led to three groups— internal, external, and a mixed group that contained both internal and external customers. The mixed group included not only customers who purchase the cars, but also internal customers such as the process owners, in this case the paint shop and the quality control group.

Define

The goals of the project were threefold:

1. **Reduce costs:** Reduce paint consumption to lower production costs.
2. **Improve customer satisfaction:** Improve process capability to better meet customer needs.
3. **Lower environmental impact:** Reduce solvent consumption to achieve a better VOC balance.

The team predicted the degree of impact for each goal by measuring anticipated benefits against organizational goals and measures.

They determined:

The degree of impact for cost reduction was high, as $1.5 million could be saved annually.

Customer satisfaction impact was medium with a target of 127.000 ppm (defective parts per million) reduction.

Environmental impacts were also medium with a projected 50.000 kg annually in VOC savings.

Measure

Several tools were used early in the measurement phase. For example, value-stream mapping served as a visual tool to help the team understand the flow of material and the paint application process. Statistical measures helped them filter, evaluate, and obtain strong data for the project. Cause-and effect diagrams were useful for identifying the root causes of consumption and performance issues, and brainstorming sessions were used to rate all potential causes. The next step was creating a data collection plan to help narrow the list of potential root causes by focusing on the following factors or critical Xs:

1. Daily basecoat consumption. Is there any dependency based on day or shift?

2. Paint film thickness check. Is there an increase, and if so, why?
3. Consumption per robot (automated painter). Are there differences, and if so, why?
4. Consumption per manual painter. Monitor consumption to check the process capability.
5. First-time through rate versus consumption. A low rate means more repairs, which translates to higher basecoat use.
6. Application equipment. Check for damages or technical problems.

Analyze

The Six Sigma team conducted a 5 Why analysis, as well as test trials on the six potential root causes. The results showed that factors one, two, four, and five were not significant. Factor three, consumption per robot, showed an increase for the liftgate robot. Through testing of factor six—application equipment—the team discovered a damaged solvent recovery valve that warranted further investigation. Additional testing uncovered that a defective solvent recovery valve was causing a direct paint flow from the color changer to the recycling tank, thus increasing consumption. Normally, the solvent recovery valve opens only for the cleaning program to bring the cleaning solvent back to a recycling tank.

Improve

The team used a variety of tools to develop solutions/improvement actions to address the two likely root causes. Value-stream mapping and benchmarking activities proved useful in the search for a manual solution to monitor the valve. On the other hand, while zeroing in on the robot issue, the team reviewed the value-stream map and discovered they could change the automatic process to a manual one for painting the liftgates. Also, through research and discussions with suppliers, they realized the plant could apply paint more efficiently by upgrading to an electrostatic paint application process.

Based on the outcome of the analyze phase, four potential improvement actions were identified for the defective solvent recovery valve factor:
1. Replace plastic valves with stainless steel valves.
2. Create an automatic recovery valve check system.
3. Check the valves weekly.
4. Eliminate the solvent recovery process.

The team used four primary methods to select the final improvement actions: test trials to evaluate stainless steel valves against plastic valves, technical research to develop an automatic recovery valve check system, brainstorming and value-stream mapping to determine the effectiveness of a weekly valve check, and the elimination of the solvent recovery process.

The test results revealed that a quick, inexpensive change from plastic to stainless steel valves would result in a 45 percent performance improvement. Testing also demonstrated that an automatic recovery valve check system would be cost effective and could offer an effective error-proofing device.

For the liftgate robot factor, three potential solutions were identified:
1. Develop a new cleaning program.
2. Change the robot process to a manual paint application.
3. Upgrade to an electrostatic paint application.

Testing focused on improving the existing cleaning program and then comparing the consumption data from the robot process to a manual process. The team also created a cost-benefit analysis for an upgrade to an electrostatic paint application. Tests showed there was no significant difference between the old and the new cleaning program. But, by simply changing to manual only painting processes for interior painting, it was estimated that Ford could save 0.28 kg/unit. Finally, the team also determined that upgrading to an electrostatic paint application system would not be cost effective.

Once the solutions were finalized, the team created a three-step implementation plan that included the following steps:

Think: Plan all necessary implementation activities.
Act: Implement the solutions.
Control: Check if solutions were correctly implemented.

Yet another critical element in the project was overcoming stakeholder resistance to the solutions. This was accomplished through effective relationship building as well as providing data, training, and opportunities to discuss the project solutions.

Once the solutions were implemented, the team achieved every project goal and even exceeded the expected cost reduction by a half million dollars annually. More specifically, in meeting these goals, the basecoat paint consumption dropped from 4.18 kg/unit to a mean consumption of 3.3 kg/unit.

Control

The new monitoring system and standard operating procedures are vital to helping the Saarlouis plant sustain the results gained in this project. This system provides a real-time view of paint consumption in detail for each of the four paint booths. All of the plant's standard operating procedures are part of the plant's ISO 9001 compliant quality management system and are therefore included in routine audits. This helps assure that paint consumption will remain within specifications.

Honors

Because of the project's results, Ford's global Six Sigma organization nominated the team to compete in ASQ's International Team Excellence Awards (ITEA) process. The project earned finalist honors, and team members had the opportunity to present their project at the 2011 World Conference on Quality and Improvement.

Quick Take

This project was a strong candidate for the competition because it was a cross-functional team that included members from production, maintenance, quality, manufacturing engineering, and the supplier: "They worked together as a team in an excellent way, proving the power of a team and the sum of competencies in a team."

(Resource: Making the Case for Quality, Ford Team Uses Six Sigma to Reduce Costs While Improving Environmental Impact, Janet Jacobsen. (www.asq.org/2011/09))

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DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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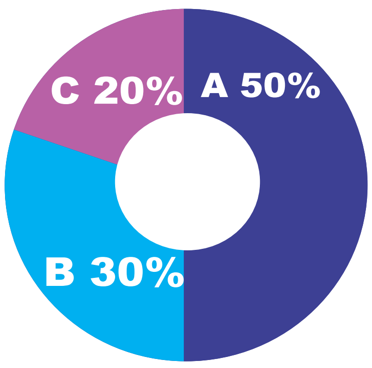

Syllabus Structure

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

Tax Planning, Tax Evasion and Tax Avoidance

Tax law reflects the complexity of modern life and the multitude of choices and options available to all taxpayers when legitimately seeking to structure their affairs. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer and means that determining the right amount of tax (but no more) that they seek to pay does necessarily requires the exercise of judgement on occasion. So long as the exercise of that judgement seeks to ensure that the taxpayer makes choices that exercise options clearly allowed by law and that they do not exploit unintended loopholes created between laws then that process of a taxpayer choosing how to structure their affairs is the process of tax planning, which is a legitimate, proper and socially acceptable act. Thus, tax planning is a systematic evaluation of finances and investments, to reduce the tax burden in a legitimate way. It involves understanding the tax implications of various cash inflows and outflows such as salary composition, property income, home loan, investments, sale or purchase of assets, gifts and interest-bearing deposits, to draw up an appropriate investment strategy that allows realization of financial goals while at the same time reducing tax liability to minimum.

It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. The two basic approaches of tax planning are:

1. **Reducing taxable income:** As a rule, higher the income or profit, higher the tax liability on such income or profit. Gross income is total profits or income from all sources, and taxable income is such gross income less adjustments allowable under various tax laws and other provisions. Such adjustments bases itself on the nature of income and expenditure. Opting for the income or expenditure heads that allows maximum set-offs from the gross income reduces taxable income, and by extension tax liability.

2. **Deferring payment of taxes to the extent possible:** An underestimated dimension of tax planning is timing investments and financial transactions so that the tax liability for such transactions arises at the farthest possible time. While this does not reduce the amount of tax payable, it delays tax outgo, thereby effectively providing interest-free cash on hand. Individuals may not need to resort to such a strategy, but delayed pay-out is valuable for small businesses that very often face cash flow difficulties.

The goal of tax planning is to arrange your financial affairs so as to minimize your taxes. It is the planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act

Objectives of Tax Planning

Tax planning is an exercise undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. The objectives of tax planning cannot be regarded as offending any concept of the taxation laws and subjected to reprehension of reducing the inflow of revenue to the Government's coffer, so long as the measures are in conformity with the statue laws and the judicial expositions thereof. The basic objectives of tax planning are:

a. **Reduction of Tax liability**
Tax law provides multiple choices and options to taxpayers. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer. However, due to lack of awareness of legal requirements, in many a cases, a taxpayer may suffer heavy taxation. Through proper tax planning and awareness, a tax payer may reduce such heavy tax burden.

b. **Minimisation of litigation**
In the matter of taxation, the tax payers will try to pay the least tax and on the other hand, the tax administrator will attempt to extract the maximum. This conflict behaviour may results into litigations. However, where proper tax planning is adopted by the tax payer in conformity with the provisions of the taxation laws, the incidence of litigation can be minimised. This saves him from the hardships and inconveniences caused by the unnecessary litigations.

c. **Productive investment**
A tax payer may reduce heavy tax burden through proper tax planning. Such reduction results into reduction in cash-outflow. In the days of credit squeeze and dear money conditions, even a rupee of tax decently saved may be taken as an interest-free loan from the Government, which perhaps, an assessee need not repay. Such retained cash can be utilised in other productive venture which also provide additional earning to the taxpayer. That means, proper tax planning is a measure of proper utilisation of available resources which in turn maximise the cash-inflow and minimise the tax burden.

d. **Healthy growth of economy**
The growth of a nation's economy is synonymous with the growth and prosperity of its citizens. In this context, a saving of earnings by

legally sanctioned devices fosters the growth of both, because savings by dubious means lead to generation of black money, the evils of which are obvious. Conversely, tax-planning measures are aimed at generating white money having a free flow and generation without reservations for the overall progress of the nation. Tax planning assumes a great significance in this context.

e. Economic stability

Tax planning results in economic stability by way of:

(i) productive investments by the tax payers; and

(ii) harnessing of resources for national projects aimed at general prosperity of the national economy and reaping of benefits even by those not liable to pay tax on their incomes.

Essentials of Tax Planning

Following are the essentials of tax planning:

Uptodate Knowledge of tax laws alongwith circulars, notifications, clarifications and Administrative instructions issued by the CBDT.

Disclosure of full and true material information

Avoid sham transactions or make-believe transactions or colourable devices

Foresight of future development or changes and enterprise's goal.

Types of Tax Planning

The tax planning exercise ranges from devising a model for specific transaction as well as for systematic corporate planning. These are:

(a) Short-range and long-range tax planning: Short-range planning refers to planning to achieve some specific or limited objective of particular fiscal year. E.g., an individual assessee whose income is likely to register unusual growth in particular year as compared to the preceding year, may plan to subscribe to the PPF/NSC's within the prescribed limits in order to enjoy substantive tax relief. By investing in such a way, he is not making permanent commitment but is substantially saving in the tax. Long-range planning on the other hand, involves entering into activities, which may not pay-off immediately. E.g., when an assessee transfers his equity shares to his minor son he knows that the Income from the shares will be clubbed with his own income. But clubbing would also cease after his son attains majority.

(b) Permissive tax planning: Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.

(c) Purposive tax planning: Purposive tax planning is based on the basis of circumvention of the law. The permissive tax planning has the express sanction of the Statute while the purposive tax planning does not carry such sanction. E.g., If an assessee manages his affairs in such a way that his income is taxable in hands of other person without attracting clubbing provision, such a plan would work in favour of the tax payer because it would increase his disposable resources.

Ethical way of reducing tax

Tax planning is an art of logically planning one's financial affairs, in such a manner that benefit of all eligible provisions of the taxation law can be availed effectively so as to reduce or defer tax liability. As tax planning follows an honest approach, by conforming to those provisions which fall within the framework of the taxation law. However, many time in the name of planning, assessee misleads the law, with / without making an offence. And to do so, the tax payer uses any scheme or arrangement, which reduces, defers and even completely prevents the payment of tax. This may also be done by shifting of tax liability to another person, so as to minimise the incidence of tax.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, submitting misleading information, falsification of accounts and willful violation of the provisions of the Income-tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases. It is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation. It is a grave problem in a developing country like ours as it leads to a creation of a 'resource crunch' for developmental activities of the State.

Tax avoidance is an exercise by which the assessee legally takes advantages, with malafide motive, of loopholes in the Act. Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is a practice of dodging or bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. E.g. if A gives gift to his wife, the income from the asset gifted will be clubbed in the hand of A. But to avoid this clubbing provision "A" decides to give gift to B's wife and B reciprocates it by giving gift to A's wife. This is not tax planning but tax avoidance. Most of the amendments are aimed to curb such loopholes.

The Direct Taxes Enquiry Committee (Wanchoo Committee) has tried to draw a distinction between the two items in the following words.

"The distinction between 'evasion' and 'avoidance', therefore, is largely dependent on the difference in methods of escape resorted to. Some are instances of merely availing, strictly in accordance with law, the tax exemptions or tax privileges offered by the government. Others are maneuvers involving an element of deceit, misrepresentation of facts, falsification of accounting calculations or downright fraud. The first represents what is truly tax planning, the latter tax evasion. However, between these two extremes, there lies a vast domain for selecting a variety of methods which, though technically satisfying the requirements of law, in fact circumvent it with a view to eliminate or reduce tax burden. It is these methods which constitute "tax avoidance".

The Royal Commission on Taxation for Canada has explained the concept of tax avoidance as under:

"Tax Avoidance" will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provisions or lack of provisions of law. It excludes fraud, concealment or other illegal measures.

Line of demarcation

The line of demarcation between tax avoidance and tax planning is very thin and blurred. There are two thoughts about tax avoidance –

a) As per first thought it is legal. Such thought is also supported by various judgments of the Supreme Court, some of them are as follows -

<u>Helvering vs. Greggory</u> **(1934)**

"Anyone may so arrange his affairs that his taxes shall be as low as possible. He is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

<u>IRC vs. Duke of Westminster</u> **(1936)**

"Taxpayer is entitled to so arrange his affairs that the tax under the appropriate Act is less than what otherwise it could be."

<u>Inland Revenue Commissioners vs. Fishers Executors</u> **(1958)**

"The highest in authority, have always recognized that the subject is entitled so to arrange his affairs as not to attract taxes imposed by the Crown, so far he can do so within the law, and that he may legitimately claim the advantage of any express terms or any omissions that he can find in his favour in taxing Act. In doing so, he neither comes under liability, nor incurs blame."

<u>CIT vs. Raman & Co.</u> **(1968)**

"Avoidance of tax liability by so arranging commercial affairs that the charge of tax is distributed, is not prohibited. A taxpayer may resort to a device to divert the income before it accrues or arises to him. Effectiveness of the device depends not upon considerations of morality, but on the operation of the Income-tax Act."

<u>Smt. C. Kamala vs. CIT</u> **(1978)**

"It is quite possible that when a transaction is entered into in one form known to law, the amount received under that transaction may attract liability under the Act and if it is entered into in another form which is equally lawful, it may not attract such tax liability. But when the assessee has adopted the latter one, it would not be open to the court to hold him liable for tax."

<u>CWT vs. Arvind Narotham</u> **(1988)**

"It is true that tax avoidance in an underdeveloped or developing economy should not be encouraged on practical as well as ideological grounds. One would wish..... that one could get the enthusiasm ..... that taxes are the price of civilization and one would like to pay that price to buy civilization. But the question which many ordinary taxpayers very often, in a country of shortages with ostentatious consumption and deprivation for the large masses, ask is, does he with taxes buy civilization or does he facilitate the waste and ostentation of the few. Unless ostentation and waste in Government spending are avoided or eschewed, no amount of moral sermons would change people's attitude to tax avoidance."

b) As per second thought it is not a legal way to reduce tax burden and it should be prohibited.

<u>McDowell & Co. Ltd. vs Commercial Tax Officer</u> **(1985)**

Supreme Court observed - "we think time has come for us to depart from Westminster principle….tax planning may be legitimate provided it is within the framework of law. Colourable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honourable to avoid the payment of tax by resorting to dubious methods. It is the obligation of every citizen to pay the honestly without resorting to subterfuges."

<u>CIT vs B.M. Kharwar</u> **(1969)**

Supreme Court held – "the taxing authority is entitled and is indeed bound to determine the true legal relation resulting from a transaction. If the parties have chosen to conceal by a device the legal relation, it is open to the taxing authorities to unravel the device and to determine the true character of relationship. But the legal effect of a transaction cannot be displaced by probing into substance of the transaction."

Justice O. Chinnappa Reddy of Supreme Court has, while briefing the evil consequences of tax avoidance in Mc.Dowell & Co. Ltd. -vs.- CTO, observed that one such evil consequence is the ethics (or the lack of it) of transferring the burden of tax liability to the shoulders of the guideless, good citizens from those of artful dodgers. As regards the ethics of taxation, he observed:

"We now live in a welfare State whose financial needs, if backed by law, have to be respected and met. We must recognize that there is behind taxation laws as much moral sanction as behind any other welfare legislation and it is a pretence to say that avoidance of taxation is not unethical and that it stands on no less moral plane than honest payment of taxation".

A similar observation was made by Lord Chancellor in Latilla vs. Inland Revenue Commissioner (1943) 011 ITR (E.C) 0078:

"There is, of course no doubt that they are within their legal rights but that is no reason why their efforts, or those of the professional gentlemen who assist them in the matter, should be regarded as a commendable exercise of ingenuity or as a discharge of the duties of the good citizenship. On the contrary, one result of such methods, if they succeed, is of course to increase pro tanto the load of tax on the shoulder of the body of good citizens who do not desire or do not know how to adopt these maneuvers."

Distinguish between Tax Planning, Tax Evasion, Tax Avoidance and Tax Management

Difference between tax planning, tax avoidance, tax evasion & tax managemen**ApproachApproach**It is futuristic and positive in nature. The planning is made today to avail benefits in future. t

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee.	It is a procedure to comply with the provisions of the law.
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it.	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organisation.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Approach	It is futuristic and positive in nature. The planning is made today to avail benefits in future.	It is futuristic but short term in nature, as loophole of the law will be corrected in future by amendments of the law.	It is concerned with past and applied after the liability of tax has arisen. It is done with negative approach to avail benefits by killing the moral of law.	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of return, etc.) & future (corrective action).
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It overrules the law.	It implements the law.
Practice	It is tax saving.	It is tax hedging.	It is tax concealment.	It is tax administration.
Need	It is desirable	It is avoidable	It is objectionable	It is essential.
Morality	It is moral in nature.	It is immoral in nature	It is illegal.	It is duty.

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CORPORATE FINANCIAL REPORTING (CFR)

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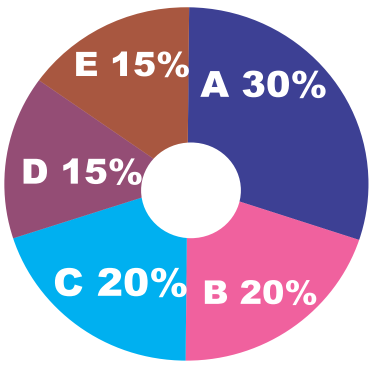

Syllabus Structure

A GAAP and Accounting Standards **30%**
B Accounting if Business Comminations
& Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **15%**
E Government Accounting in India **15%**

Learning Objectives:

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

- Learn the importance of reporting of Labour Practices and Decent Work Conditions.
- Know the associated GRI-G4 Indicators.

Accounting of Investment in Associate and Subsidiary

1. The companies Act, 2013 in Section 129 sub section 2 and 3 state:

(2) At every annual general meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year.

(3) Where a company has one or more subsidiaries or associate companies, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company and of all the subsidiaries and associate companies in the same form and manner as that of its own and in accordance with applicable accounting standards, which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2):

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries and associate company or companies in such form as may be prescribed:

Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed.

2. Thus we find companies complying Ind AS and having subsidiaries or associates (including joint ventures) need to prepare two sets of accounts:

(i) financial statements[1] and

(ii) Consolidated financial statements[2].

[1] also named as separate financial statements [Ind AS 27].
[2] Consolidation is also done under two methods:

(i) Equity method: Initial measurement of investment in associate or joint venture at cost and subsequent measurement under equity method [Ind AS 28]

(ii) Combining assets and liabilities of parent and subsidiaries, measuring non-controlling interest [Ind AS 110] and recognizing goodwill [Ind AS 103].

3. In para 2 references of Ind AS 27, Ind AS 28, Ind AS 103 and Ind AS 110 have been drawn. Brief discussion of relevant parts of the standards may help solving problems placed subsequently.

(Iind AS 27 states that a company presenting consolidation (by combining assets and liabilities or by applying equity method) shall in addition present separate financial statements. A company exempted from consolidation may prepare separate financial statements as its only financial statements.

(ii) Ind AS 28 states that an entity with joint control (in case of joint venture), or significant influence (in case of associate), shall account for its investment in an associate or a joint venture using the **equity method**[3].

[3] Equity method: The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

(iii) Ind AS 103 states that the acquirer obtaining control over acquiree, recognises and measures in its financial statements (in consolidated financial statements when acquiree continues to exist) (a) the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and (b) the goodwill acquired in the business combination or a gain from a bargain purchase.

(iv) Ind AS 110 states that consolidated financial statements shall be produced by the parent company by measurement of non-controlling interest on the reporting date, by measuring goodwill/bargain purchase on the acquisition date and by combining of accounts (also offsetting and eliminating) of parent and subsidiary.

4. Next we shall take up two simple transactions (A) and (B), for recording and reporting based on Ind AS.

(A): Company P acquires 20% shares (entitling 20% voting power and significant influence) in company Q on 1-4-17 at a cost of ₹ 46000, paid by cash. During the financial year 2017-18, Q made profits of ₹ 20000 and other comprehensive income of ₹ 10000.

a) Pass the journal entries in books of P at the time of acquisition.
b) Show the relevant accounting treatment at the end of the year in (i) consolidated and (ii) separate financial statements of P.

a) Journal Entry:

Investment	Dr.	46000	
To Cash			46000

b) There will be two sets of accounting; one for consolidated accounts and the other for separate financial statements.
(i) For consolidated accounts Ind AS 28 requires the recognition of investment by equity method.

Note: Change in investee's net assets = 20000+10000 = 30000; share of P = 20% of 30000 = 6000.

Investor's Profit or loss includes 20% of 20000 = 4000 and other comprehensive income includes 20% of 10000 = 2000.

At the end of 2017-18, in consolidated accounts of P adjustments are made to the Investment and income accounts as per equity method:

Investment	Dr.	6000	
To Profit and Loss			4000
To Other Comprehensive Income			2000

(ii) At the end of 2017-18, for the separate financial statements of P, Investment is carried at cost at ₹ 46000 (alternatively, at a value as per Ind AS 109).

(B): Company P (a listed company) acquires 60% shares in company Q on 1-4-17 at a cost of ₹ 138000, paid by issue of shares at par, when fair value of identifiable net assets of Q was ₹ 220000. The abstract of balance sheet of Q (along with fair values at the acquisition date) is as follows:

Abstract of balance sheet of Q:

Balance sheet items	1-4-17 book value	1-4-17 Fair Value
PPE	184000	200000
Inventories	45000	50000
Financial Assets	78000	60000
Total assets	307000	
Equity Share Capital	130000	
Other Equity	87000	
Borrowings	60000	60000
Trade Payables	30000	30000
Total of Equity and Liabilities	307000	

(a) Pass journal entries in consolidated accounts of P based on Ind AS 103.

(b) What will be the journal entries for the separate financial statements of P?

Ans:

(a): Assets, liabilities and NCI are recognized at Fair value.

PPE in Q	Dr.	200000	
Inventories in Q	Dr.	50000	
Financial assets in Q	Dr.	60000	
Goodwill (balancing Figure#)	Dr.	10000	
To Equity share capital			138000
To NCI*			92000
To Borrowings in Q			60000
To Trade Payables in Q			30000

* Notes: @ NCI recognized at Fair Value: 40%* 138000/60% = 92000;

Goodwill = Consideration + NCI – Fair Value of Identifiable Net Assets = 138000 + 92000 – 220000 = 10000.

Ans:

(b):

Investment	Dr.	138000	
To Equity Share Capital			138000

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INDIRECT TAX

LAWS & PRACTICE (ITP)

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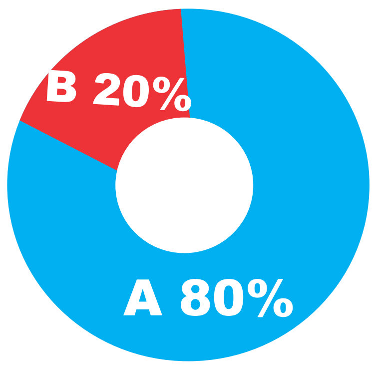

Syllabus Structure

A Advanced Indirect Tax - Laws & Practice **80%**

B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section, you will having an understanding of:

- Concept of Time of Supply;
- Significance of Time of Supply;
- Time of Supply of Services – When tax to be paid on Forward Charge basis;
- Time of Supply of Services – When tax to be paid on Reverse Charge basis;
- Time of Supply of Services – In case of Vouchers;
- Time of Supply of Services – Residual Provisions;
- Time of Supply of Services – In case of addition to the value of supply by way of interest, late fees or penalty;
- Time of Supply of Services – In case of change in rate of tax on Services.

Indirect Tax Laws & Practice

Introduction

- Goods and Services Tax is the most recent change in the indirect tax map of the country which was introduced all across India on and from July 1, 2017. In the pre-GST era, the point of taxation or the point of applicability of taxes happened to be different for different taxes and duties. This created a lot of confusion and became tough to manage. As such, this required some reshaping under the GST law.
- For the purpose of calculating and discharging the GST liability, it becomes pertinent to know the date when the tax liability arises i.e. the date on which the charging event has occurred. In GST law, it is known as Time of Supply. In other words, under the newly introduced GST law, the point of taxation is referred to as "Time of Supply".
- The time of supply happens to be different for goods and services as the nature of supply is different in each of these cases. As such, GST law provides separate provisions for the determination of 'time of supply of goods' and 'time of supply of services'. Sec. 12, Sec. 13 and Sec. 14 of the Central Goods and Services Tax Act, 2017, set out the provisions relating to time of supply. Moreover, Sec. 20 of the Integrated Goods and Services Tax Act, 2017 also lays down the provisions regarding time of supply applicable to inter-State supplies. In the following sections, we discuss the provisions relating to time of supply of services under the GST law.

Concept of Time of Supply

- Time of supply means the point in time when goods/services are considered supplied.
- CGST/SGST/UTGST or IGST must be paid at the time of supply.
- Under the GST law, goods and services have a separate basis to identify their time of supply.
- Time of supply refers to the point of time of a transaction at which the tax liability has to be accounted.
- The provisions regarding time of supply are covered u/s 12 of the Central Goods and Services Tax (Amendment) Act, 2018.

Significance of Time of Supply

The importance of the concept of time of supply can be understood from the following points:

- Time of supply helps in the determination of the date when the event which gives rise to GST liability has occurred.
- The time of supply, under the GST law, fixes the point when the liability to charge GST arises.
- It also indicates when supply is deemed to have been established.
- When the 'time' is known, it helps in the determination of the rate of tax, value, and thus, the identification of due date for payment of taxes.

Time of Supply of Services – When tax to be paid on Forward Charge basis

- The liability to pay tax on services shall arise at the time of supply, as determined in accordance with the provisions of Sec. 13 of the Central Goods and Services Tax Act, 2017.
- Sec. 13(1) states that the liability to pay tax on services shall arise at the time of supply.
- According to Sec. 13(2) of the Central Goods and Services Tax Act, time of supply of services is ascertained as follows:

A] When invoice is issued by supplier of service within the period prescribed u/s 31(2)

The time of supply shall be the earlier of the following dates:

- Date of issue of invoice by supplier of service; or
- Date of receipt of payment.

B] When invoice is not issued by supplier of service within the period prescribed u/s 31(2)

The time of supply shall be the earlier of the following dates:

- Date of provision of service; or
- Date of receipt of payment.

C] When above provisions do not apply

- The time of supply shall be the date on which the service recipient shows the receipt of services in his books of accounts.

NB: The phrase 'date of receipt of payment' means the date on which payment is entered in his books of accounts or the date on which the payment is credited to his bank account, whichever is earlier.

Time of Supply of Services – When tax to be paid on Reverse Charge basis

- According to Sec. 13(3) of the Central Goods and Services Tax Act, in case of supplies in respect of which tax is paid or is liable to be paid on reverse charge basis, the time of supply of services shall be the earlier of the following dates:
  - Date of payment as entered in the (i) Books of Accounts of the recipient or the date on which the (ii) Payment is debited in his bank account, whichever is earlier; or
  - Date immediately following sixty days from the date the supplier issues the invoice.

NB: It is to be noted that when it is not possible to determine the time of supply under above clause then the time of supply shall be the date of entry in the books of accounts of the recipient of supply.

Time of Supply of Services – In case of Vouchers

Voucher refers to a small printed piece of paper that entitles the holder to a discount, or that may be exchanged for goods or services eg. Amazon gift vouchers, Sodexo meal passes etc. As per Sec. 13(4) of Central Goods and Services Tax Act, in case of supply of vouchers by the supplier the time of supply is ascertained as under:

- <u>In a case where the supply is identifiable at that time (i.e. in case of single purpose voucher)</u>: Date of issue of the voucher; or
- <u>In any other case</u>: Date of redemption of voucher.

Time of Supply of Services – Residual Provisions

As per 13(5) of Central Goods and Services Tax Act, where it is not possible to determine the time of supply under the provision of Sec. 12(2), Sec. 12(3) or Sec. 12(4), the time of supply shall be determined as follows:

- <u>In a case where periodical return has to be filed</u>: Due date of filing of return; or
- <u>In any other case</u>: Date of payment of tax.

Time of Supply of Goods – In case of addition to the value of supply by way of interest, late fees or penalty

The time of supply to the extent it relates to an addition in value of supply by way of interest, late fees or penalty for delayed payment of any consideration shall be the 'Date on which the supplier receives such addition in value'.

Time of Supply – In case of change in rate of tax on services

The normal rule applicable for time of supply changes when there is a change in the rate of tax of supply of services. In this situation, the time of supply has to be ascertained in the following manner:

Invoice issued before the date of change in tax rate	Payment received before the date of change in tax rate	Time of supply	Applicable GST rate
No	No	Date of issue of invoice; or Date of receipt of payment – Earlier	New rate of GST
Yes	No	Date of issue of invoice	Old rate of GST
No	Yes	Date of receipt of payment	Old rate of GST

NB: In the event of change in rate of tax, the phrase 'Date of receipt of payment' refers to the 'Date of credit in the bank account' if such credit is after four working days from the date of change in rate of tax.

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COST
& MANAGEMENT AUDIT (CMAD)

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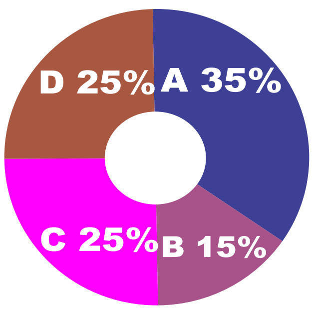

Syllabus Structure

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

Audit of Corporate Social Responsibility (CSR)

CSR is based on the "Trustship Concept" whereby business houses are looked upon as trustees of the resources (in the form of raw materials, human resources etc.) they draw form the society and thus are expected to return them manifold. CSR is extremely important for sustainable development of all stake holders. Here the stake holders mean all the people on whom the business has an impact including the society at large.

Balancing social responsibility with business performance is imperative in today's business arena.

CSR motivates companies to contribute towards the well-being of the society as a whole in the following ways:

(i) Engaging members of local community.
(ii) By using socially responsible investment
(iii) Develop an amicable relationship with employees and consumers.

Engage in action which are protecting and sustaining the environment.

Company Social Responsibility (CSR) under Companies Act, 2013.

The Companies Act, 2013, a successor to the Companies Act, 1956 made CSR a compulsory Act, under the notification dated 27.02.2014 under Section 135 of the new Act, CSR is compulsory for all companies – Government or private or otherwise, provided they meet any one or more of the following fiscal criterions:

- The net worth of the company should be Rupees 500 crores or more.
- The annual turnover of the company should be Rupees 1000 crores or more.
- Annual net profits of the company should be at least Rupees 5 crores.

If the company meets any one of the three fiscal conditions as stated above, they are required to create a CSR committee to enforce its CSR mandate, with at least 3 directors, one of whom should be an independent director.

Every qualifying company requires spending of at least 2% of its average net profit for the immediately preceding 3 financial years on CSR activities.

As per CSR Rules, the provision of the CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India.

The CSR committee shall formulate and recommend to the Board, a policy which shall indicate the activities to be undertaken and the amount of expenditure to be incurred on such activities. The Board shall approve its CSR policy accordingly.

CSR activities listed in Schedule VII includes the following;

Eradicating hunger and poverty,
Promotion of education and employment,
Livelihood enhancement projects;
Promoting gender equality;
Women empowerment;
Hostels for women and orphans,
Old age homes;
Day care centres;
Environmental sustainability;
Protection of flora and fauna;
Contribution to PM Relief Fund;
Measures to benefit armed forces veterans, war widows and dependents;
Promotion of sports;
Rural development projects;
Slum area development.

A CSR audit program can cover all or any of the following risks.

Effectiveness of the operating framework
Effectiveness of the implementation of specific, large CSR projects
Adequacy of Internal Control
Reliability of measures of performance
Management of risk associated with external factors like regularity compliance, management of potential adverse NGO attention etc.

A CSR Audit should cover the following points:

Human Rights-

Fundamental Human Rights
Freedom of association
Collective bargaining
Forced/Child labour

Human Resources –

Labour relations
Health and safety measures
Compensation in case of any accident
Career development and training
Remuneration system

Business behavior

Relations with clients, suppliers etc.
Prevention of corruption and ante-competitive practices.

Corporate Governance

Board of Directors,
Audit and Internal controls
Treatments of shareholders
Executive remuneration

Environmental consideration

Pollution control measures
Manufacturing and distribution of products, their use and disposal effect on pollution.

Community involvement

Impacts on local communities

Creation of social infrastructure like roads, schools, hospitals

Contribution to social and economic development.

General interest causes.

ENVIRONMENTAL POLLUTION CONTROL

Environmental Pollution refers to the introduction of harmful pollutants into the environment. These pollutants contaminates the environment. It has a hazardous effect on the natural world and on the activities of living beings.

Pollution is something that contaminates a given substance. Pollution can be a gas (like CO2), a solid (such as plastic), a liquid (such as oil) or something organic like bacteria.

The major types of environmental pollution are :

(i) Air pollution
(ii) Water pollution
(iii) Noise pollution
(iv) Thermal pollution,
(v) Soil pollution and
(vi) Light pollution

Deforestation and hazardous gaseous emissions also lead to environmental pollution. During the last 10 (ten) years, the world has witnessed severe rise in environmental pollution.

Sources and Causes

The sources and causes of environmental pollution include the following:

(i) **Industrial Activities:**
The industries all over the world that brought prosperity and affluence, made inroads in the biosphere and disturbed the ecological balance. The layer of smoke floating in the air, swirling gases, industrial effluents and the fall out of scientific experiments bring about constant health hazards. Those are also polluting and contaminating both air and water. The improper disposal of industrial wastes are the sources of soil and water pollution Chemical water resulting from industries pollute water bodies, rivers and seas too.

(ii) **Dumping solid waste**
Household and commercial waste pollutes the environment when not disposed of properly.

(iii) **Vehicles**
The smoke emitted by motor-cars and buses using petrol/diesel and the cooking coal also causes air pollution. Further, the sound produced by these vehicles causes noise pollution.

(iv) **Urbanization and industrialization.**
The urbanization and the rapid growth of industrialization are causing through environmental pollution the greatest harm to the plant life which in turn causing harm to the animal kingdom and human lives.

(v) Population overgrowth
Owing to the increase in population, particularly in developing countries, there has been surge in demand for basic food, occupation and shelter. Our India has witnessed massive deforestation to absorb the growing population and their demands.

(vi) Combustion of fossil fuels
The combustion of fossil fuels pollutes the air, the soil and the water with noxious gases such as carbon-di-oxide (CO2) and Carbon monoxide (CO).

(vii) Agricultural Waste
Fertilizers and Pesticides used in agriculture are key causes of environmental pollution.

Suggested Measures of pollution control :

(i) It should be legally ensured that future factories are set up at a distant place, an industrial complex far away from the township.
(ii) Promoting the use of environment – friendly electronic vehicles to avoid harmful smoke from running petrol/diesel driven vehicles.
(iii) Forestry should be developed and deforestation should be stopped.
(iv) Factory wastes should be disposed of in any environment – friendly manner and discharge of such waste in river should be banned.
(v) Recycle the sewage or dispose it in such a way as to prevent it from polluting the environment.
(vi) Using fewer plastics would help in controlling plastic pollution.
(vii) Disposing of litter and chemicals responsibly.
(viii) Burning fewer fossil fuels.

What is an environmental audit?

Environmental audits are tools which can quantify the environmental performance and position of an organization.

There are three main types of audits which are

(i) environmental compliance audits
(ii) environmental managemental audits to verify whether an organization meets its stated objectives and
(iii) functional environmental audits such as for water and electricity.

Benefits of environmental audit

Benefits vary depending on the objectives and scope of an audit. However, benefits include the following:

(i) Organization understand how to meet their legal requirements.
(ii) Meeting specific statutory reporting requirements.
(iii) Organizations can demonstrate they are environmentally responsible
(iv) Organizations can demonstrate their environmental policy is implemented
(v) Understanding environmental interactions of products, services and activities

(vi) Knowing their environmental risks are managed appropriately
(vii) Improving environmental performance and saving money.

ENERGY AUDIT

Energy Audit is the key to a systematic approach for decision-making in the area of energy management. It attempts to balance the total energy inputs with its use. It also serves to identify all the energy streams in a facility. It quantifies energy usage according to its discrete functions. Industrial energy audit is an effective tool in defining and pursuing comprehensive energy management programme.

According to the energy conservation Act, 2001, Energy Audit is defined as "the verification, monitoring and analysis of use of energy including submission of technical report containing recommendations for improving energy efficiency with cost-benefit analysis and an action plan to reduce energy consumption."

Need for Energy Audit
In any industry, the three operating expenses are often found to be energy (both electrical and thermal), labour and materials. If any one were to relate to the manageability of the cost or potential cost savings in each of the above components, energy would invariably emerge as a top-ranker. Hence, energy management function constitutes a strategic area of cost reduction. Energy audit will help to understand more about the ways energy and fuel are used in any industry. It also helps in identifying the areas where waste can occur and where scope for improvement exists.

Type of energy Audit
The types of energy audit to be performed depends on;
(i) Function and type of industry
(ii) Depth to which final audit is needed, and
(iii) Potential and magnitude of cost reduction desired.

Based on above criteria, energy Audit can broadly be classified into the following two types:
(A) Preliminary Audit
(B) Detailed Audit

(A) Preliminary Energy Audit
This audit is a relatively quick service to:
- Establish energy consumption in the organization
- Estimate the scope for saving
- Identify the most likely areas for attention
- Identify immediate improvements / savings
- Identify areas for more detailed study/measurement.

(B) Detailed Energy Audit
This audit is carried out in 3 phases.
Phase I - Pre Audit Phase
Phase II - Audit Phase
Phase III - Post Audit Phase

Pre-Audit Phase
- Plan and organize a full-fledged energy audit team
- Walk through Audit for first hand observation
- Informal Interview with Energy Manager, Production or Plant manager,
- Conduct of brief meeting/awareness programme with all divisional heads and persons concerned.

Audit Phase
- Primary data gathering, Process Flow diagram and Energy utility Diagram;
- Conduct survey and monitoring;
- Conduct a detailed trial for selected energy guzzlers;
- Analysis of energy use;
- Identification and development of energy conservation opportunities;
- Cost benefit analysis;
- Reporting and presentation to the top management

Post audit Phase
- Implementation and follow up

EFFICIENCY/PRODUCTIVITY AUDIT

Efficiency is the ratio of a system's outputs to inputs, and is strictly a limiting example of an idea of productivity in that, an efficient system is one in which the ratio is optimal. Two categories of efficiency should be noted as follows:
(i) Economic efficiency, which arises when the cost of inputs is minimized for a given level of mix of inputs; and
(ii) Technical efficiency, which arises when the output is maximized for a given volume and mix of inputs.

Effectiveness denotes accomplishment of objectives and efficiency denotes fulfillment of objectives with minimum sacrifice of scarce resources. Efficiency audit is the audit which ensures that every rupee invested yields optimum results.

The main objective of efficiency audit is to ensure that:
- There is most optimum utilization of investment and
- That investment is canalized in most profitable lines.

Efficiency Audit is directed towards appraisal or scrutiny of actual performance with reference to expected efficient standards.

Efficiency Audit is conducted on the basis of following parameters:
(a) Return on capital
(b) Capacity utilization
(c) Optimum utilization of men, machines and materials,
(d) Export performance and import substitution,
(e) Liquidity position and cash flow
(f) Payback period of the entire organization (i.e., dividing the capital employed by annual cash flow)

Among the above parameters, the overall rate of return on capital employed is the most important one which shows both efficiency of the capital turnover and efficiency of the sales.

While conducting efficiency Audit in an organization, an auditor should determine whether:

(1) The area of operation or project has been managed in an economical and efficient manner in terms of appropriate utilization of manpower, plant and machinery etc.
(2) Any delay in decision-making has led to additional financial costs.
(3) Inefficiency has led to non-achievement of targeted production and productivity.
(4) Any operation of the managerial process has led to ineffective or delayed operation of a job or project.

In the context of Efficiency Audit, the following two ratios are most important to an auditor.

(a) Efficiency ratio i.e., (standard Hours for actual production/Actual Hours for Actual Production) × 100. This ratio measures the efficiency with which the firm is operating, and
(b) Activity ratio i.e., (standard Hours for actual production/Standard Hours for Budgeted production) × 100. This ratio measures the level of activity at which the firm is operating.

PROPRIETY AUDIT

Propriety Audit refers to verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct.

E. L. Kohler defines the term propriety as "that which meets the tests of public interest, commonly accepted customs and standards of conduct, and particularly as applied to professional performance, requirements of law, Govt. regulations and professional codes."

Propriety Audit involves an examination of actions and decisions to find out whether they are in public interest and meet the standards of proper conduct. It is concerned with examining that there is no leakage of revenue or wastages of funds by mistake or fraud. It helps to ascertain appropriateness from legal, financial or economic point of view.

The best example of propriety Audit is the audit undertaken by the comptroller and Auditor General of India (CAG) in respect of Public Sector undertakings (PSUs). Public money invested in PSUs requires proper utilization. Each PSU will have to follow clearly laid down rules, procedures and authorizations while spending the funds.

The approval of expenditure is governed by the principle of propriety which requires to answer the following questions:

(i) Whether the proposed expenditure is justified
(ii) Whether the alternative ways exist in minimization of cost.
(iii) Impact of the expenditure on the overall business.
(iv) Whether the expenditure is properly authorized as per the internal procedures laid down.
(v) Whether the expenditure is incorporated in the budget approved by the Board of Directors.

The Government spending in India is subject to the "Cannons of Financial Propriety" as follows:

(a) The expenditure should not prima facie be more than what the occasion demands and that every officer should exercise the same degree of vigilance as in respect of his own money.
(b) No authority in the exercise of its powers of sanctioning expenditure should pass an order which will directly or indirectly accrue to its own advantage.
(c) The funds should not be utilized for the benefit of a particular person or group of persons.
(d) Apart from the agreed remuneration and reward, there should not be left open any other revenue to indirectly benefit the management personnel, employees and others, and
(e) Allowances and other payments, other than those covered in the agreed remuneration should not be allowed to be a source of profit to the recipient (e.g., daily allowance for outstation work).

Companies Act in relation to Propriety Audit

According to Sec. 233B of the companies Act, the cost Auditor's report, which, inter alia, covers the following points are based on propriety".

(a) Matters which appear to him to be clearly wrong in principle or apparently unjustifiable.
(b) Cases whether the company's funds have been used in a negligent or inefficient manner.
© Factors which could have been controlled, but not have been done, resulting in an increase in cost of production etc.

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STRATEGIC

PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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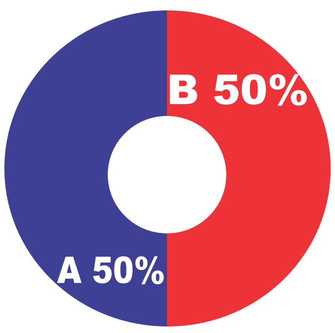

Syllabus Structure
A Strategic Performance Management **50%**
B Business Valuation **50%**

Learning objectives:

After studying this section, you will be able to:

- understand the price-earnings ratio (P/E) vis-a-vis the Gordon growth model
- Compute the Growth Rate Implied by the Current Stock Price
- Calculate the Expected P/E Found with the Gordon Growth Model

Strategic Performance Management and Business Valuation

The price-earnings ratio (P/E) is perhaps the most widely recognized valuation indicator. Using the Gordon growth model, we can develop an expression for P/E in terms of the fundamentals. This expression has two uses:

When used with forecasts of the inputs to the model, the analyst obtains a justified (fundamental) P/E-the P/E that is fair, warranted, or justified on the basis of fundamentals (given that the valuation model is appropriate). The analyst can then state his or her view of value in terms not of the Gordon growth model value but of the justified P/E. Because P/E is so widely recognized, this method may be an effective way to communicate the analysis.

The analyst may also use the expression for P/E to weigh whether the forecasts of earnings growth built into the current stock price are reasonable. What expected earnings growth rate is implied by the actual market P/E? Is that growth rate plausible?

We can state the expression for P/E in terms of the current (or trailing) P/E (today's market price per share divided by trailing 12 months' earnings per share) or in terms of the leading (or forward) P/E (today's market price per share divided by a forecast of the next 12 months7 earnings per share, or sometimes the next fiscal year's earnings per share).

Leading and trailing justified P/E expressions can be developed from the Gordon growth model. Assuming that the model can be applied for a particular stock's valuation, the dividend payout ratio is considered fixed. Define b as the retention rate, the fraction of earnings reinvested in the company rather than paid out in dividends. The dividend payout ratio is then, by definition, (1 - b) = Dividend per share/Earnings per share = D_1/E_1. If we divide Po = $D_1/(r - g)$ by next year's earnings per share, E_1, we have

$$P_o / E_0 = (D_1/E_1) / (r -g) = (1- b) / (r -g)$$

This represents a leading P/E, current price divided by next year's earnings. Alternatively, if we divide $P_o = D_0(l + g)/(r - g)$ by the current year's earnings per share, E_o, we have

$$P_o / E_0 = [D_0 (1 + g)/E_0] / (r -g) = (1- b)(1+g) / (r -g)$$

This is a trailing PIE, current price divided by trailing (current-year) earnings.

Strengths:

- The Gordon growth model is often useful for valuing stable-growth, dividend-paying companies.
- It is often useful for valuing broad-based equity indexes.
- The model features simplicity and clarity; it is useful for understanding the relationships among value and growth, required rate of return, and payout ratio.
- It provides an approach to estimating the expected rate of return given efficient prices (for stable-growth, dividend-paying companies).

Weaknesses:

- Calculated values are very sensitive to the assumed growth rate and required rate of return.
- The model is not applicable, in a practical sense, to non-dividend-paying stocks.
- The model is also inapplicable to unstable-growth, dividend-paying stocks.

Problem -1

Suppose a company has a beta of 1.1. The risk-free rate is 5.6 percent and the market risk premium is 6 percent. The current dividend of ₹2.00 is expected to grow at 5 percent indefinitely. What is the value of the company's stock? The price of the stock is ₹40; what dividend growth rate would be required to justify a ₹40 price?

Solution:

The required rate of return is r = RF + Pi[E(RM) - RF] = 0.056 + (1.1 X 0.06) = 0.122 or 12.2%. The value of one share, using the Gordon growth model, is

$$V_0 = D_1 / r -g = 2.00(1.05)/ 0.122-0.05 = 2.10/0.072 = ₹\ 29.17$$

The valuation estimate of the model (₹29.17) is less than the market value of ₹ 40.00. Assuming that the model and the other assumptions (Do = ₹2.00 and r = 12.2 percent) are reasonable, the growth rate in dividends required to justify the ₹40 stock price can be calculated by substituting all known values into the Gordon growth model equation except for g:

$$40 = [2.00(1 + g)] / [0.122 – g]$$

which simplifies to 4.88 - 40g = 2 + 2g
or, 42 g = 2.88
or, g = 0.0686
or, g = 6.86%

An expected dividend growth rate of 6.86 percent is required for the stock price to be properly valued at ₹ 40.

Problem - 2

Harry Trice wants to use the Gordon growth model to find a justified P/E for the French company Carrefour SA (Euronext: *CA*), a global food retailer specializing in hypermarkets and supermarkets. Trice has assembled the following information:
Current stock price = €56.94

Estimated earnings per share for the current year = €1.837
Dividends for the current year = €0.575
Dividend growth rate = 8.18%
Risk-free rate = 5.34%
Equity risk premium = 5.32%
Beta = 0.83

1. What are the justified trailing and leading P/Es based on the Gordon growth model?
2. Based on the justified trailing P/E and the actual P/E, is *CA* fairly valued, overvalued, or undervalued?

Solution:

1. For *CA*, the required rate of return using the CAPM is

$$R_F + \beta_i[E(R_M) - R_F] = 5.34\% + 0.83\,(5.32\%)$$
$$= 9.76\%$$

The dividend payout ratio is

$$(1 - b) = D_0 / E_0$$
$$= 0.575/1.837$$
$$= 0.313$$

The justified leading P/E (based on next year's earnings) is

$$P_0 / E_0 = (1 - b)/ (r - g) = 0.313/ (0.0976\text{-}0.0818) = 19.8$$

The justified trailing P/E (based on current-year earnings) is

$$P_0 / E_0 = (1 - b)\,(1 + g) / (r - g) = 0.313\,(1.0818)/ (0.0976\text{-}0.0818) = 21.4$$

2. Based on a current price of €56.94 and trailing earnings of €1.837, the trailing P/E is €56.94/€1.837 = 31.0. Because the actual P/E of 31.0 is greater than the justified trailing P/E of 21.4, we conclude that *CA* appears to be overvalued. We can also express the apparent mispricing in terms of the Gordon growth model. Using Trice's assumptions, the Gordon growth model assigns a value of 0.575(1.0818)/(0.0976 - 0.0818) = €39.37, which is below the current market value of €56.94 The Gordon growth model approach gives a lower stock value than the market price and a lower P/E than the current market P/E.

Game Changing

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Defining Characteristics of JRD: Emulation for Entrepreneurs

The one who failed to recognize Dilip Kumar …..

This incident is stated to have happened in the sixties when Dilip Kumar was ruling high as the biggest star of Indian film industry. Purportedly, Dilip Kumar himself narrated this incident. Once, the star was travelling by plane. The passenger sitting next to him was elderly, dressed in a very simple bush shirt and pant; and his apparel projected a middle class. He appeared well educated.

Passengers on the aircraft kept snatching glances at their renowned hero Dilip Kumar. Yet, the gentleman, next to him, appeared unconcerned. He read his newspapers, sipped his tea, and then lost in his thoughts without taking any note of the celebrity sitting so close to him.

Dilip Kumar was puzzled, "Who is this commoner who fails to recognize a star like him?'. He became uneasy. Trying to strike a conversation, he smiled, and introduced himself 'I am Dilip Kumar'. The courteous man smiled back and said hello.

Dilip Kumar brought the subject to films and asked, "Do you watch films?" The man replied, "Oh, very few. I did see one many years ago". Dilip Kumar casually mentioned that he himself worked in films. The gentleman responded, "Oh, that's wonderful?" There was no further response.

When the flight landed and it was time to part, Dilip Kumar held out his hand, "It was good to travel with you. May I I know your name?" The man shook hand and smiled, "Thank you. I am J.R.D. Tata". The humble Dilip Kumar was struck with the learning – No matter how big you are, there is always someone bigger. Do remain humble!

JRD Tata

Jehangir Ratanji Dadabhoy Tata, or JRD Tata as he is famously known, was a man of the ages. Born into the illustrious and industrious Tata family, he grew up imbibing two polarised cultures – one from his sophisticated French mother and the second from his Parsi father. Born in 1904, Jehangir spent the first few years of his life in France, even serving a year in the Spahis regiment during the First World War. His father, Ratanji Dadabhoy Tata, had decided to move the family to London at this point. But shortly after moving, JRD's mother passed away and the family returned to India.

In between his many travels, JRD grew up to be a restless seeker of adventure and strived for excellence in every aspect of his life. His name 'Jehangir' – meaning conqueror of the world – was rightfully given as he conquered the business world in India when he took over the reins from his father in 1938, at just 34. It was under his leadership that the Tata assets climbed from ₹ 62 crore in 1939 to more than ₹ 10,000 crore in 1990.

Defining Characteristics

Here follow some of JRD's defining characteristics that can serve as a guide to entrepreneurs everywhere. The box items exhibit quotable quotes of JRD.

Daring to Dream Big

JRD Tata may be remembered for his fool-proof business strategy and unbelievable turnovers, but his true legacy as an entrepreneur started with thinking outside the box. At a time when the World Wars were in play and the world was advancing in mechanics and technology, JRD decided to put his love for flying into action and turned his attention to the then less-popular aviation industry. He not only became India's first licensed pilot but also founded India's first commercial airline in 1932 – Tata Airlines (now known as Air India).

> **"Nothing worthwhile is ever achieved without deep thought and hard work."**

Hailed as the 'Father of the Aviation Industry', JRD's success lies in the fact that he decided to dive into an industry, the potential of which was gravely underplayed in the Indian market, and create history among the skies. Like every entrepreneur, he came up with a unique idea and made it a global success through sheer force of commitment.

A Humanitarian Leader

As one of the senior Tata executives, Darbari Seth, once said, "Mr Tata was able to harness a team of individualistic executives, capitalising upon their strengths, downplaying their differences and deficiencies; all by the sheer weight of his leadership."

"To lead men, you have to lead them with affection."

JRD always emphasised the need for everyone to work as one team to achieve success for the company as a whole. And, despite being applauded for his many contributions in raising the stakes and numbers, he always humbly credited his team first. This is the key characteristic of being a successful entrepreneur – knowing how to work as one team to its maximum potential and giving credit where it's due.

Taking risks to the Maximum

JRD created business history at a time where India was straight-jacked by an economic limbo, even forty years into its Independence from British rule. Being able to secure and promote an industrial revolution, so to speak, as the pinnacle of a new kind of entrepreneurship was a serious risk that JRD was taking.

"Making steel may be compared to making a chappati. To make a good chappati, even a golden pin will not work unless the dough is good"

India had not yet recovered from its economic 'drain of wealth' and every effort was being pooled in to recover our natural assets. Not only did JRD dive head-long into a pile of 'could-be', he managed to take the situation by its head and turn it into a multi-crore success. Although the Tata Group had been flourishing at the time of his ascent, he was the first to preclude it into the array of success it currently enjoys by bringing a whole new set of ideas to the table.

Striving for Excellence

JRD constantly co-related perfection with excellence and stated that it was only in the quest for the former that the latter would be a natural consequence. To this end, he followed a business mantra of 'Humata, Hukhta, Hvarshta', which translates to 'good thoughts, good words and good deeds'. His success motto was fairly simple – to be committed to a single idea and to do everything in one's power to make sure that it reaches its maximum potential.

"If you want excellence, you must aim at perfection. It has its drawbacks, but being finicky is essential"

According to JRD, quality had to match innovation. He intensely disliked the laid-back Indian attitude, and much of his fabled short temper was triggered by the carelessness of others. He stressed: 'If you want excellence, you must aim at perfection. I know that aiming at perfection has its drawbacks. It makes you go into detail that you can avoid. It takes a lot of energy out of you but that's the only way you finally actually achieve excellence. So in that sense, being finicky is essential. A company, which uses the name Tata, shares a tradition. The symbol 'T' has to be a symbol of quality.'

Thinking of the Bigger Picture

JRD was a man of the future. He was the first to incorporate a functioning HR Department in his company. He also altered the selection process to be on the basis of merit instead of dynasty. He also introduced the concept of 'paid leaves' that was soon to become vastly active in the workforce.

"No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people and is achieved by fair and honest means."

JRD also pioneered for the eight-hour day, before even the United States or Britain had formally incorporated it into their legislation. A philanthropist by nature, JRD has always claimed that he wanted India to be a 'happy country'. To this extent, he wished to offer her the chance to meet other nations on an equal footing on all levels, starting with taking a lead in the world of business.

Professionalism

JRD's respect for his managers bound the group. The Tata Group companies are run by professionals who firmly believe in the trusteeship concept laid down by J N Tata as also by Mahatma Gandhi.

"Uncommon thinkers Reuse what common thinkers Refuse."

Every senior Tata director from the 1930s onwards held a degree from a foreign university. Tata willingly financed bright young boys who wanted to go abroad for further education. JRD was also a vital bridge between the scientific establishment and the government through his founding of the Tata Institute of Fundamental Research, and as the longest serving member of the Atomic Energy Commission.

Tata's personal interest in technology, combined with India's isolation in the 1950s and 1960s, spurred several group companies, particularly Tata Steel and Tata Chemicals, to innovate in their fields. At Tata Steel, a Research and Control Laboratory had been opened in 1937, and its researchers developed an extensive variety of special steels for applications as varied as parachute harnesses and razor blades.

Quick Take

JRD's joy of achievement extended beyond the ambit of business to the present day triple bottom-line encompassing Profits, People and the Planet. The defining characteristics of JRD are certainly emulation for every Entrepreneur.

Resources:

1. Live life a little dangerously – JRD Tata; Sanjana Ray; 29th Jul 2016; yourstory.com /2016/07/ entrepreneurship-lessons-jrd-tata

2. Tata Central Archives

YEARS OF CELEBRATING THE MAHATMA

Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
11th June, 2019 (Tuesday)	Corporate Laws & Compliance (Paper 13) (Group - III)
12th June, 2019 (Wednesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
13th June, 2019 (Thursday)	Strategic Financial Management (Paper 14) (Group - III)
14th June, 2019 (Friday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
15th June, 2019 (Saturday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
16th June, 2019 (Sunday)	Cost & Management Audit (Paper 19) (Group -IV)
17th June, 2019 (Monday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
18th June, 2019 (Tuesday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)

YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises
given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSION

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.

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.

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

Message from

Directorate of Studies

Dear Students,

We have stepped into June, 2019 and June, 2019 term of examination will start. We from the Directorate of Studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through, Mock Test Papers (MTPs), Work Book, and we have conducted Webinar sessions. Before stepping in to the examination hall, please go through the PPTs on 'Achieve your GOAL'; uploaded by the Directorate of Studies and which will help you to know about certain Do's and Don'ts in the examination.

You know that the nation is celebrating 150th birth anniversary of the father of the nation M.K.Gandhi. One of his inspirational message towards the students were:

"True education must correspond to the surrounding circumstances or it is not a healthy growth."

Let us observe his memory by following his message:

Certain general guidelines are listed below and which will help you in preparing yourselves:

- Conceptual understanding & Overall understanding of the subject should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms is required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Please refer the links mentioned below :

For Mock Test Papers (MTP) : https://icmai.in/studentswebsite/mtp2016_j19_Final.php

For PPT on "Achieve your GOAL : http://icmai.in/studentswebsite

For Work Book Link : https://icmai.in/studentswebsite/Workbook-Syl-2016-Final-March2019.php

Live/Recorded Webinar Link : https://eicmai.in/Webinar_Portal/Students/StudentLogin.aspx

Ebulletin Link : https://icmai.in/studentswebsite/E-Bulletin.php

GOOD LUCK & Best wishes as always.

Be Prepared and Get Success;

FOLLOW US ON

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA