



DIN & NO OF DIRECTORS AND DIRECTORSHIPS

Director Identification Number (Din)



[Section 152(3) & Sections 153 to 159 of the Companies Act, 2013]

The provisions relating to Director Identification Number are contained in Sections 153 to 159 of the Companies Act, 2013 read with Rule 9, 10, 11 and 12 of the Companies (Appointment and Qualification of Directors) Rules, 2014. These provisions are explained as under:

(A) Provisions contained in the Act

1. Mandatory to have DIN [Section 152(3)]

No person shall be appointed as a director of a company unless he has been allotted the Director Identification Number under section 154.

2. Application for DIN (Section 153)

- (a) Application by whom? Every individual intending to be appointed as a director of any company shall make an application for allotment of DIN.
- (b) Manner of making application.
 - The application shall be made to the Central Government.
 - The application shall be made in such form and manner, and shall be accompanied with such fees as may be prescribed.

3. Allotment of DIN (Section 154)

The Central Government shall allot DIN to an applicant in such manner as may be prescribed. DIN shall be allotted within 1 month of receipt of application for allotment of DIN.

4. Prohibition to obtain more than one DIN (Section 155)

No individual who has already been allotted a DIN, shall apply or obtain or possess another DIN.



5. Intimation of DIN by the director to the company (Section 156)

- Every person who is already a director, shall intimate his DIN to the company or companies in which he is already a director.
- Such intimation must be given by him within 1 month of receipt of DIN.

6. Intimation of DIN by the company to the Registrar (Section 157)

- Every company shall intimate the DIN of all its directors to the Registrar or any other officer or authority as may be specified by the Central Government.
- Such intimation must be given by the company within 15 days of receipt of intimation of DIN by it from its directors.
- The intimation shall be furnished in such form and manner as may be prescribed.

7. Obligation to indicate DIN (Section 158)

If any return, information or particulars required to be furnished under the Act relates to a director or contains any reference to a director, every person or company shall mention the DIN in such return, information or particulars.

8. Penalty (Section 159)

Contravention of Sections 153, 155 and 156 is punishable with fine upto Rs. 50,000, plus upto Rs. 500 per day in case of continuing default.

(B) Provisions contained in the Rules

1. Definition of "Director Identification Number" (DIN) [Rule 2(d)]

- DIN means an identification number allotted by the Central Government to any individual, intending to be appointed as director or to any existing director of a company, for the purpose of his identification as a director of a company.
- The DIN obtained by the individuals prior to the notification of these rules shall be the DIN for the purpose of the Companies Act, 2013.
- DIN includes the Designated Partnership Identification Number (DPIN) issued under section 7 of the Limited Liability Partnership Act, 2008 and rules made thereunder.

2. Application for allotment of DIN (Rule 9)

- (a) Every individual, who is to be appointed as director of a company shall make an application electronically in Form DIR-3, to the Central Government for the allotment of DIN along with such fees as provided in the Companies (Registration Offices and Fees) Rules, 2014.
- (b) The Central Government shall provide an electronic system to facilitate submission of application for the allotment of DIN through the portal on the website of the Ministry of Corporate Affairs.
- (c) The applicant shall download Form DIR-3 from the portal, fill in the required particulars sought therein, verify and sign the form and after attaching copies of the following documents, scan and file the entire set of documents electronically -
 - (i) photograph;
 - (ii) proof of identity;
 - (iii) proof of residence;
 - (iv) specimen signature duly verified.



- (d) Form DIR-3 shall be signed and submitted electronically by the applicant using his or her own Digital Signature Certificate and shall be verified digitally by -
- (i) a chartered accountant in practice or a company secretary in practice or a cost accountant in practice; or
 - (ii) a company secretary in full time employment of the company or by the managing director or director of the company in which the applicant is to be appointed as director.
- (e) In case the name of a person does not have a last name, then his or her father's or grandfather's surname shall be mentioned in the last name along with the declaration in Form No. DIR-3A.

3. Allotment of DIN (Rule 10)

- (a) On the submission of the Form DIR-3 on the portal and payment of the requisite amount of fees through online mode, an application number shall be generated by the system automatically.
- (b) After generation of the application number, the Central Government shall process the applications received for allotment of DIN, decide on the approval or rejection thereof and communicate the same to the applicant along with the DIN allotted in case of approval by way of a letter by post or electronically or in any other mode, within a period of 1 month from the receipt of such application.
- (c) If the Central Government, on examination, finds such application to be defective or incomplete in any respect, it shall give intimation of such defect or incompleteness, by placing it on the website and by email to the applicant who has filed such application, directing the applicant to rectify such defects or incompleteness by resubmitting the application within a period of 15 days of such placing on the website and email. In such a case, the Central Government shall -
- (i) reject the application and direct the applicant to file fresh application with complete and correct information, where the defect has been rectified partially or the information given is still found to be defective;
 - (ii) treat and label such application as invalid in the electronic record in case the defects are not removed within the given time; and
 - (iii) inform the applicant either by way of letter by post or electronically or in any other mode.
- (d) In case of rejection or invalidation of application, the fee so paid with the application shall neither be refunded nor adjusted with any other application.
- (e) All DINs allotted to individual(s) by the Central Government before the commencement of these rules shall be deemed to have been allotted to them under these rules.
- (f) The DIN so allotted under these rules is valid for the life-time of the applicant and shall not be allotted to any other person.

4. Intimation of DIN by existing directors (Rule 10A)

- (a) Every director, functioning as a director in one or more companies on or before the 30th June, 2007 and who has not yet intimated his DIN to such company or companies shall, within 1 month of the receipt of Director Identification Number from the Central Government, intimate his Director Identification Number to the company or all companies wherein he is a director as per Form DIR-3B.
- (b) The intimation by the company of Director Identification Number of its directors under section 157 of the Act shall be furnished in Form DIR-3C within 15 days of receipt of intimation under section 156.



5. Cancellation or surrender or Deactivation of DIN (Rule 11)

The Central Government or Regional Director (Northern Region), Noida or any officer authorised by the Regional Director may, upon being satisfied on verification of particulars or documentary proof attached with the application received alongwith fee from any person, cancel or deactivate the DIN in the following cases:

- (a) Where DIN is found to be duplicated in respect of the same person provided the data related to both the DIN shall be merged with the validly retained number.
- (b) Where DIN was obtained in a wrongful manner or by fraudulent means.
 - Before cancellation or deactivation of DIN pursuant to clause (b), an opportunity of being heard shall be given to the concerned individual.
 - The term 'wrongful manner' means any case where DIN is obtained on the strength of documents which are not legally valid or incomplete documents are furnished or on suppression of material information or on the basis of wrong certification or by making misleading or false information or by misrepresentation.
 - The term 'fraudulent means' means obtaining DIN with an intent to deceive any other person or any authority including the Central Government.
- (c) In case of the death of the concerned individual.
- (d) Where the concerned individual has been declared as a person of unsound mind by a competent Court.
- (e) Where the concerned individual has been adjudicated an insolvent.
- (f) Where an application made in Form DIR-5 by the DIN holder to surrender his or her DIN along with declaration that he has never been appointed as director in any company and the said DIN has never been used for filing of any document with any authority. Before deactivation of any DIN in such case, the Central Government shall verify e-records.

6. Intimation of changes in particulars specified in DIN application (Rule 12)

- (a) Every individual who has been allotted a DIN shall, in the event of any change in his particulars as stated in Form DIR-3, intimate such change(s) to the Central Government within a period of 30 days of such change(s) in Form DIR-6 in the following manner, namely:
 - (i) The applicant shall download Form DIR-6 from the portal, fill in the relevant changes, verify the Form and attach duly scanned copy of the proof of the changed particulars and submit electronically.
 - (ii) The form shall be digitally signed by a chartered accountant in practice or a company secretary in practice or a cost accountant in practice.
 - (iii) The applicant shall submit the Form DIR-6.
- (b) The Central Government, upon being satisfied, after verification of such changed particulars from the enclosed proofs, shall incorporate the said changes and inform the applicant by way of a letter by post or electronically or in any other mode confirming the effect of such change in the electronic database maintained by the Ministry.
- (c) The DIN cell of the Ministry shall also intimate the change(s) in the particulars of the director submitted to it in Form DIR-6 to the concerned Registrar(s) under whose jurisdiction the registered office of the company(s) in which such individual is a director is situated.
- (d) The concerned individual shall also intimate the change(s) in his particulars to the company or companies in which he is a director within 15 days of such change.



Director Identification Number (DIN) is individual specific, viz. for one individual, there shall be one DIN even if he is a director in more than one company. Once issued, DIN remains valid for lifetime unless it is cancelled, surrendered or deactivated.

Number of directors



[Section 149(1) and (2) of the Companies Act, 2013]

Section 149 of the Companies Act, 2013 provides for the constitution of the Board of directors. The purpose of the section is to prevent the company from going into the hands of a single person. The provisions relating to minimum and maximum number of directors are explained as follows:

1. Minimum number of directors

- Every public company shall have a minimum of 3 directors.
- Every private company shall have a minimum of 2 directors.
- Every One Person Company shall have a minimum of 1 director.

Articles may stipulate higher minimum number. A company may, by its articles, provide a higher number to be the minimum strength of the Board of directors.

Implications where number of directors fall below statutory minimum. The provisions as to number of directors are mandatory and any business transacted after the number of directors fell below the statutory minimum was held to be invalid [Re, Sly, Spink and Co. (1911) 2 Ch 430]. Where the minimum number of directors were three but only two directors were appointed, an allotment of shares by the two directors was held to be invalid, though two directors were sufficient to form a quorum [British Empire Match Co., ex. p., Ross, (1888) 59 LT 291].



2. Maximum number of directors

- A company shall have a maximum of 15 directors.
- However, a company may appoint more than 15 directors by passing a special resolution.

Every company existing on or before the date of commencement of this Act shall, within 1 year from such commencement, comply with the requirements relating to minimum and maximum number of directors.

Practical Example:

The Board of Directors of the 'Bright Future' company proposes to increase the number of Directors to 16. Advise, whether under the provisions of the Companies Act, 2013, the Board of Directors can do so?

Answer:

As per section 149(1), a company shall have a maximum of 15 directors. However, a company may appoint more than 15 directors by passing a special resolution. The provisions of section 149(1) apply to all the companies, whether public or private, and also to Government companies and Associations not for profit. In the given case, all the companies in question may increase the number of directors to 16 by passing a special resolution.

Number of directorships



[Section 165 of the Companies Act, 2013]

The provisions relating to number of directorships, as contained in section 165 of the Companies Act, 2013, are explained as follows:

1. Maximum number of directorships

No person shall hold office as a director (including alternate directorships) in more than 20 companies, whether public or private.



2. Maximum number of directorships in public companies

No person shall hold office as a director (including alternate directorships) in more than 10 public companies (including any private company which is either a holding company or a subsidiary company of a public company).

3. Directorships exceeding the maximum limit held before the commencement of this Act [Section 165(3)]

If the number of directorships held by a person immediately before the commencement of this Act exceeds the maximum number of directorships specified under section 165, then, he shall, within 1 year from such commencement, -

- (a) choose the companies in which he wishes to continue to hold the office of director, such that the number of companies so chosen does not exceed the maximum number of directorships specified under section 165;
- (b) resign his office as director in the other remaining companies; and
- (c) intimate the choice made by him, to -
 - (i) each of the companies in which he was holding the office of director before the commencement of this Act; and
 - (ii) the Registrar having jurisdiction in respect of each such company.

4. Effect of resignation made under section 165(3) [Section 165(4) and (5)]

- (i) Any resignation made in pursuance of section 165(3) shall become effective immediately on the despatch of the resignation to the company concerned.
- (ii) No such person shall act as director in more than the specified number of companies,-
 - (a) after despatching his resignation; or
 - (b) after the expiry of 1 year from the commencement of this Act, whichever is earlier.

1. Restrictions on maximum number of directorships may be imposed by the members

The members of a company may, by special resolution, specify any lesser number of companies in which a director of the company may act as directors.

2. Restrictions on being a Small Shareholders' Director

A person cannot be a Small Shareholders' Director in more than 2 companies at the same time [Rule 7(8) of the Companies (Appointment and Qualification of Directors) Rules, 2014.

Thank You



SENSITIVITY ANALYSIS

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- ✦ Sensitivity Analysis is the process where impact of each key variable upon NPV is studied, only one at a time, keeping the other variables as constant.
- ✦ Sensitivity analysis starts with a base case (i.e. most likely) scenario where management determines the estimates of the key primary variables from which it can calculate the base case NPV.
- ✦ While keeping all other variables equal to their base case values, each variable is changed by a certain percentage below and above its base case value (or, alternatively, is set to its pessimistic and optimistic estimates).
- ✦ The resulting changed NPV values can then give a picture of the possible variation in or sensitivity of NPV when a given risky variable is misestimated.



- ◆ Sensitivity analysis is useful in identifying the crucial variable that could contribute the most to the riskiness of the investment.
- ▣ A variable may itself be very risky but may make an insignificant contribution to the riskiness of the Project's NPV. In such a case the investment decision does not crucially depend on the accuracy of its estimate.
- ✕ On the other hand a less risky variable may be crucial if even marginal errors in its estimate could have a significant impact on NPV.



Determining whether a variable is crucial or not would indicate whether it is worth investing additional time and money to gather additional information that could reduce the uncertainty surrounding the

variable, or whether we should bother with estimating that uncertainty in the first place. Sensitivity analysis also indicates how bad a misestimating a variable can be before the investment becomes unacceptable.



1. Moving Ltd. is preparing their budget for 2016. In the preparation of the budget, they would like to take no chances, but would like to envisage all sorts of possibilities and incorporate them in the budget. Their estimates are as under:
 - (a) If the worst possible happens, sales will be 8,000 units at a price of ₹19 per unit. The material cost will be ₹9 per unit, direct labour ₹2 per unit and the variable overheads will be ₹1.50 per unit. The fixed cost will be ₹60,000 p.a.
 - (b) If the best possible happens sales will be 15,000 units at a price of ₹20 per unit. The material cost will be ₹7 per unit, direct labour ₹3 per unit and variable overheads will be ₹1.00 per unit. The fixed cost will be ₹48,000 p.a.
 - (c) It is most likely however that the sales will be 2,000 units above the worst possible level at a price of ₹20 per unit. The material cost, direct labour and variable overheads will be respectively ₹8, ₹3 and ₹1 per unit. The fixed cost will be ₹50,000 p.a.
 - (d) There is a 20% probability that the worst will happen and a 10% probability that the best will happen and a 70% probability that the most likely outcome will occur.

What will be the expected value of profit as per the budget for 2016?



Profitability Statement under the three Estimates:

Amount in (₹)	Pessimistic 8000 units	Most Likely 10,000 units	Optimistic 15,000 units
Selling price (per unit)	19	20	20
Variable cost (per unit)	12.50	12	11
Sales	1,52,000	2,00,000	3,00,000
Less: Variable cost	1,00,000	1,20,000	1,65,000
Contribution	52,000	80,000	1,35,000
Less: Fixed Cost	60,000	50,000	48,000
Profit (loss)	(8,000)	30,000	87,000



Calculation of Expected Value of Profit

Outcome	Profit/(loss) (₹)	Probability	Expected Value
Pessimistic	(8,000)	0.2	(1,600)
Most likely	30,000	0.7	21,000
Optimistic	87,000	0.1	8,700
Expected value of Profit			28,100



2. The initial investment outlay for a Capital Investment Project consists of ₹100 lakhs for Plant & Machinery and ₹40 lakhs for Working Capital. Other details are summarized below:

Sales	1 lakhs units for years 1-5
Selling price	₹120 per unit of output
Variable Cost	₹60 per unit of output
Fixed Overheads (excluding depreciation)	₹15 lakhs per year for years 1 to 5
Rate of Depreciation on Plant & Machinery	25% on WDV method
Salvage value of Plant & Machinery	Equal to the WDV at the end of year 5
Applicable Tax Rate	40%
Time horizon	5 years
Post-tax cut off rate	12%

Required

- Indicate the financial viability of the project by calculating the Net Present Value.
- Determine the Sensitivity of the project's NPV under each of the following condition
 - Decrease in Selling Price by 5%
 - Increase in Variable Cost by 10%
 - Increase in cost of Plant & Machinery by 10%



a. Financial Viability Study:

	Depreciation Schedule: Initial Investment ₹100 lakhs				
Particular(₹ lakhs)	Yr.1	Yr.2	Yr.3	Yr.4	Yr.5
Opening P&M	100	75.00	56.25	42.19	31.64
Annual depreciation	25	18.75	14.06	10.55	7.91
Closing P&M	75	56.25	42.19	31.64	23.73

Selling price (₹ per unit)	120
Less: Variable Cost (₹ per unit)	60
Contribution (₹ per unit)	60

Sales volume per year = 1 lakh units

Total contribution per year	60
Less: Fixed overheads, other than depreciation per year	15
Profit before depreciation and Tax per year (₹ lakhs)	45

b. Computation of P.V. of Net Cash Inflow

End of Year (₹ lakhs)	1	2	3	4	5
PBDT	45	45.00	45.00	45.00	45.00
Less: Depreciation	25	18.75	14.06	10.55	7.91
PBT	20	26.25	30.94	34.45	37.09
Less: Tax @ 40%	8	10.50	12.38	13.78	14.84
PAT	12	15.75	18.56	20.67	22.25
Depreciation	25	18.75	14.06	10.55	7.91
Salvage value of P&M	-	-	-	-	23.73
Decrease in Working Capital	-	-	-	-	40.00
Net Cash inflow (i)	37	34.5	32.62	31.22	93.89
P.V. factor @12% (ii)	0.893	0.797	0.712	0.636	0.567
P.V. of Net CF (i) × (ii)	33.04	27.50	23.23	19.86	53.24



NPV = P.V. of Net Cash Inflow – Initial Investment Outlay = ₹(156.87 – 140) = ₹16.87 lakhs

As the NPV @12% is positive the project is financially viable

c. Sensitivity Analysis:

- (i) 5% decline in selling price. The 5% decline in selling price change leads to fall in profits $(0.05 \times ₹120 \times (1 - 0.4)) = ₹3.60$ lakhs per year for years 1 to 5.

Decline in post-tax net cash inflow : Decline in NPV = ₹3.6 lakhs \times PVIFA(12% 5)

= ₹3.60 lakhs \times 3.605 = ₹12.98 lakhs

Percentage decline in NPV compared to the base case NPV of ₹16.87 lakhs

= $(12.98/16.87) \times 100 = 76.94\%$

- (ii) Increase in Variable Cost by 10%

The above change results in a decline post-tax Net Cash inflow to the extent of $(1-0.4) \times ₹6$ lakhs or ₹3.6 lakhs per year for year 1 to 5. Calculating made in (i) above will be equally valid here as decline in net present value will be 76.94%

- (iii) Increase in cost of Plant and Machinery by 10%

As a result initial outlay will be higher by ₹10 lakhs

However, the net cash flow will be higher due to the tax benefit on depreciation of the increase in the cost of plant and machinery. The present value calculation is shown below:

Year	1	2	3	4	5
Opening value (₹ lakhs)	10.0	7.50	5.62	4.21	3.16
Depreciation	2.50	1.88	1.41	1.05	0.79
Closing Value	7.50	5.62	4.21	3.16	2.37
Tax benefit on depreciation	1.00	0.75	0.56	0.42	0.32
Increase in salvage value	-	-	-	-	2.37
Increase in net cash inflow	1.00	0.75	0.56	0.42	2.69
P.V.I.F @ 12%	0.893	0.797	0.712	0.636	0.567
P.V. (6) \times (7)	0.890	0.600	0.400	0.270	1.530
				Total PV	3.690

Decline in NPV = P.V. of additional inflow reduced $(10-3.69) = ₹6.31$ lakhs.

Percentage decline in NPV = $(₹6.31/₹16.87 \text{ lakhs}) \times 100 = 37.4\%$



DECISION TO SHUT DOWN FACILITIES

Sometimes management is confronted with the possibility of shutdown of both manufacturing and marketing facilities, it is always in the interest of company to continue to operate the facilities as long as products or services sold recover variable cost and make some contribution toward recovery of fixed cost. A shutdown of facilities does not eliminate all costs. Depreciation, interest, property tax and insurance continue during complete inactivity. If operations are continued, certain expenditure connected with shutting down will also be saved. Further, costs will have to be incurred when a closed facility is reopened can be saved. In the event of shutdown company may lose the benefit of experience of present employees. In the event of shut-down of facilities, morale of employees and confidence of customer is adversely affected. Recruitment and training of new workers would add to cost. Loss of customers is another major consideration. It is in the interest of company to continue the operation as long as differential costs or any amount above that can be obtained. This can be explained by income statements prepared for sales at different capacities.

	Units produced					
	Shutdown	1,000	2,000	3,000	4,000	5,000
Sales Revenue @ ₹3	-----	₹3,000	6,000	9,000	12,000	15,000
Variable cost @ ₹2	-----	2,000	4,000	6,000	8,000	10,000
Marginal contribution	-----	1,000	2,000	3,000	4,000	5,000
Fixed Cost	2,000	5,000	5,000	5,000	5,000	5,000
Loss	2,000	4,000	3,000	2,000	1,000	-----

From the above data, suspension can be recommended when sales volume drops below 3,000 units. This is the point at which operation loss exceeds the shutdown cost. This point can be determined without income statement as follows:

Fixed cost	5,000
Fixed cost, if plant is shutdown	<u>2,000</u>
Additional cost to be recovered when operating	<u>3,000</u>
Each unit sold contributes Re. 1.00 to recovery of fixed cost:	
Sales price per unit	₹3.00
Variable cost per unit	<u>₹2.00</u>
Contribution	<u>₹1.00</u>

Therefore, sales of 3,000 units ($₹3,000 \div 1.00$) are necessary to recover ₹3,000 of fixed costs. Now, it is assumed that selling price will be reduced by ₹2.80 per unit. At what volume will the shutdown cost be less than the loss from operations? The drop in selling price reduces contribution to Re. 0.80 per unit.

Selling price	₹2.80
Variable cost per unit	<u>₹2.00</u>
	<u>₹0.80</u>

Sales of 3,750 units ($₹3,000 \div \text{Re.}0.80$) would be necessary to recover an additional ₹3,000 of non-variable costs.



example

Universe Ltd. manufactures 20,000 units of 'X' in a year at its normal production capacity. The unit cost as to variable costs and fixed costs at this level are ₹13 and ₹4, respectively. Due to trade depression, it is expected that only 2,000 units of 'X' can be sold during the next year, The management plans to shut down the plant. The fixed cost for the next year then is expected to be reduced to ₹33,000. Additional costs of plant shut-down are expected at ₹12,000. Should the plant be shut down? What is the shut down point?

Answer:

The question does not mention the selling price of facilitate the calculations to be determine the shut down point. It is assumed to be ₹20 (some other figure can also be assumed)

Statement showing calculation relating to shut-down decision

	Plant is operated	Plant is shut down
Variable cost (2,000 units x ₹13)	₹26,000	
Fixed cost (20,000 units x ₹4)	80,000	₹33,000 (Inescapable cost)
Additional shut-down cost	-----	12,000
Total Cost	1,06,000	45,000
Sales (2,000 x ₹20)	40,000	-----
Less: Total cost	1,06,000	45,000
Loss	If continued (66,000)	(45,000) if shut-down

Recommendation: A comparison of figures is relating to two alternatives points out that loss is reduced by ₹21,000 if the plant is shut down.

$$\text{Shut - down point} = \frac{\text{Total fixed cost} - \text{Shut down cost}}{\text{Contribution per unit}}$$

$$\text{Shut - down point} = \frac{₹80,000 - ₹45,000}{₹20 - ₹13}$$

$$= ₹5,000 \text{ units}$$

The words "plant shutdown" — even if referring to a temporary one — can be associated with a long litany of negatives. Stopping production, no matter the duration, results in decreased revenue. The additional resources and other costs associated with the shutdown make it a very expensive endeavor. Most shutdowns are highly complex and carry inherent safety risks. And as compared to other maintenance procedures, shutdowns are more unpredictable since there are many opportunities to discover or create problems involving expensive equipment and machinery.

There is a positive side, however. Planned shutdowns are almost always undertaken because ultimately they are good for business. They lead to improvements in the performance of equipment and processes and



enable product modifications. And they are an opportunity to reduce the energy, materials, safety hazards, or waste associated with manufacturing.

It's clear that although the actual shutdown may fall on the shoulders of internal and external resources responsible for maintenance, engineering, procurement, and project management, a shutdown impacts other business functions such as finance, sales, product design, top management as well — in short, the entire company.

Let's look at the sequence of events that occurs during a temporary shutdown and some steps your company can take to assure a good outcome.

Temporary Shutdown's has five phases:

1. Planning

In the planning phase, the facility's internal team, the prime contractor hired for the project, and the various engineering disciplines, both internal and external, determine the scope of work to be accomplished, the pre-shutdown activities that are required, and general logistics. With this preliminary game plan in place, they define the human resources that will be required for the project

At this point, the key players negotiate the schedule. The prime contractor will want adequate time to carry out the project without unduly taxing the resources and causing critical tasks to be rushed. The owner will advocate for condensing the schedule to minimize loss of production time. In the end, the compromise usually involves working around the clock, through weekends and holidays, to satisfy both points of view.

The planning phase can take anywhere from one to three months for all resources to be properly vetted and the scope of work defined. Here are some tips for the planning phase:

- Shutdowns are highly susceptible to scope creep. It's common to discover additional work that needs to be done once systems are disassembled or equipment is more accessible. To prevent these situations from spinning the budget or schedule out of control, you need to designate an ultimate decision-maker and empower that individual to make decisions on your behalf. In addition, you should communicate the deadlines for go/no-go decisions on all items that would expand the scope of work during the shutdown. Last minutes changes are one of the biggest risks to executing a successful shutdown. However, you want to balance the negative aspect of scope creep against missed opportunities for significant or critical improvements.
- One commonly overlooked step in the planning phase is the review of lessons learned during previous shutdowns. Although best practices dictate that these are captured through a continuous improvement process and made available to the team, it's not always the case. If no such documentation exists, the alternative is to solicit the input of individuals who had a key role in earlier shutdowns and take their knowledge and experience into account in the current plan. It is also the time to institute a continuous improvement process starting with the current shutdown.



- The budget must allow for the unpredictable nature of shutdowns. Therefore, the contract should include a contingency of 20 percent that defines how savings will be shared between the owner and prime contractor.

2. Coordination

In this second stage, the team determines the order in which things will be done, who is responsible for what, and the detailed workflow logistics. This involves the entire shutdown team: internal staff (maintenance, engineering, facility management, and procurement), external engineers, contractors, and vendors.

It is the most critical and time-consuming of the phases. Contributing to the complexity is the need to prepare for how the equipment and systems will be both removed from and returned to service. This is significant because in many plants it is necessary to start up systems in a specific sequence in order to allow upstream systems to come online. As a simple example, in most chemical, food and beverage, and pharmaceutical shutdowns, it is critical to start up systems that supply water for injection, then those that convert water to high-pressure steam, followed by those that generate clean steam.

Furthermore, the cleaning procedures that are required in a c CGMP (Current Good Manufacturing Practice) facility require certain utilities be operational in order to provide the raw materials for the cleaning processes to occur. All these steps must be orchestrated in an efficient manner in order to stay on track. Any breakdowns along the way have a domino effect that puts the schedule and budget at risk. The coordination phase usually takes a minimum of three months to be executed properly and can take upward of six months on complex shutdowns.

3. Procurement

In addition to the procurement of equipment and materials, this phase includes the bidding or negotiation of contracts with all necessary consultants, contractors, and vendors. This involves your key decision-makers, engineering, project management, facilities, and the procurement or purchasing department. This phase can take anywhere from two weeks to three months depending on the availability of resources to work on these tasks.

One tip for the procurement phase: When writing contracts for all consultants, contractors, and vendors, it is important to include specific language that clearly communicates and addresses the characteristics of the shutdown environment and how these will impact executing their tasks.

4. Execution

5. Return to service

Thank You



ASSOCIATED ENTERPRISE (AE)

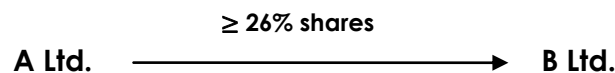
Meaning of Associated Enterprise (AE) [Section 92A]

(1) For the purposes of this section and sections 92, 92B, 92C, 92D, 92E and 92F, "associated enterprise", in relation to another enterprise, means an enterprise-

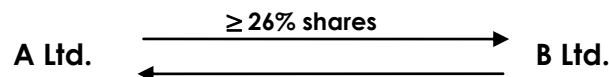
- (a) which participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise; or
- (b) in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.

(2) For the purposes of sub-section (1), two enterprises shall be deemed to be associated enterprises if, at any time during the previous year,-

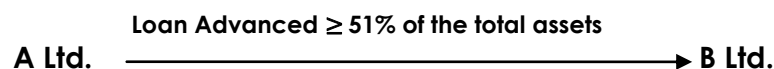
- (a) one enterprise holds, directly or indirectly, shares carrying not less than twenty-six per cent of the voting power in the other enterprise; or



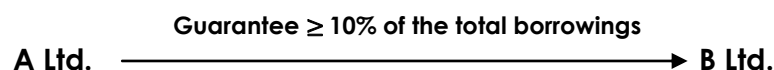
- (b) any person or enterprise holds, directly or indirectly, shares carrying not less than twenty-six per cent of the voting power in each of such enterprises; or



- (c) a loan advanced by one enterprise to the other enterprise constitutes not less than fifty-one per cent of the book value of the total assets of the other enterprise; or



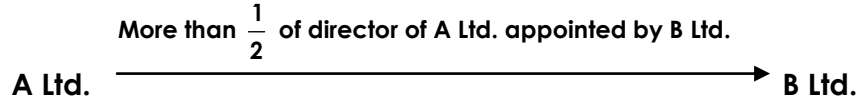
- (d) one enterprise guarantees not less than ten per cent of the total borrowings of the other enterprise; or



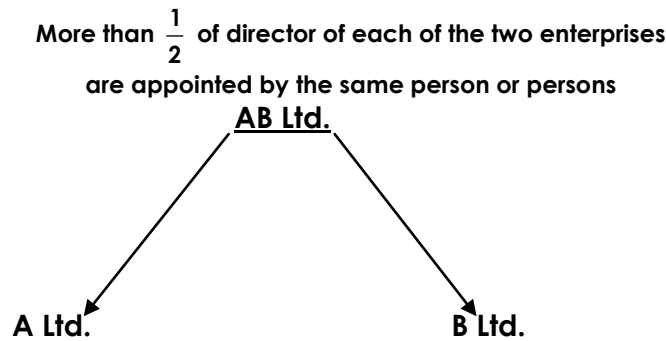
- (e) more than half of the board of directors or members of the governing board, or one or more executive



directors or executive members of the governing board of one enterprise, are appointed by the other enterprise; or



(f) more than half of the directors or members of the governing board, or one or more of the executive directors or members of the governing board, of each of the two enterprises are appointed by the same person or persons; or

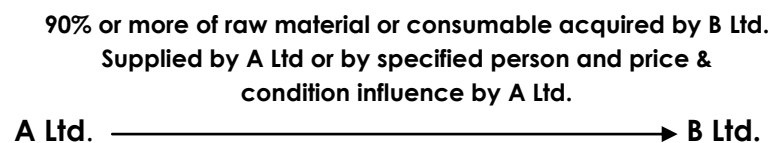


(g) the manufacture or processing of goods or articles or business carried out by one enterprise is wholly dependent on the use of know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights; or

Manufacture or Processing of A Ltd. = wholly depends on the use of Know-how, patents, copyright, trade-marks, licences, franchises etc.

B Ltd. = Owner of Know-how, patents, copyright, trade-marks, licences, franchises etc.

(h) ninety per cent or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise, or by persons specified by the other enterprise, and the prices and other conditions relating to the supply are influenced by such other enterprise; or



(i) the goods or articles manufactured or processed by one enterprise, are sold to the other enterprise or to persons specified by the other enterprise, and the prices and other conditions relating thereto are



influenced by such other enterprise; or

**Goods manufactured or processed and sold to other enterprise
Prices and other condition influenced by other enterprise**

A Ltd. —————→ B Ltd.

- (j) where one enterprise is controlled by an individual, the other enterprise is also controlled by such individual or his relative or jointly by such individual and relative of such individual; or

**Both the enterprises are controlled by
same "Individual" and/or his relatives**

A Ltd. —————→ B Ltd.

- (k) where one enterprise is controlled by a Hindu undivided family, the other enterprise is controlled by a member of such Hindu undivided family or by a relative of a member of such Hindu undivided family or jointly by such member and his relative; or

A Ltd. = Controlled by 'X' HUF.

B Ltd. = Controlled by a member of 'X' HUF or relative of a member of such HUF.

- (l) where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than ten per cent interest in such firm, association of persons or body of individuals; or

≥ 10% interest in such firm, AOP or BOI

A Ltd. —————→ B & Co. (Firm)

- (m) there exists between the two enterprises, any relationship of mutual interest, as may be prescribed.

STATUS HOLDERS IN RELATION TO FOREIGN TRADE POLICY 2015-2020

Foreign Trade Policy: The Union Ministry of Commerce and Industry announces the integrated Foreign Trade Policy (FTP) in every 5 years with defined objectives. This policy is updated every year in April, in addition to changes that are made throughout the year.

Advantages of Foreign Trade: In the era of globalization, foreign trade has become the lifeline of any economy. Its primary purpose is not merely to earn foreign exchange, but also to stimulate greater economic activity. International trade not only enables a nation to specialize in the goods which it can produce most cheaply and efficiently, but also to consume more than it would be able to produce with its own resources. International trade enlarges the potential markets for the goods of a particular economy.

Objectives of FTP 2015-20: The FTP for 2015-2020 seeks to achieve the following objectives:

- Stable and sustainable policy environment for foreign trade: To provide a stable and sustainable policy



environment for foreign trade in merchandise and services;

- Export Promotion Mission: To link rules, procedures and incentives for exports and imports with other initiatives such as "Make in India", "Digital India" and "Skills India" to create an "Export Promotion Mission" for India;
- Diversification of India's export: To promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports;
- Expansion and integration of export market: To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the government's flagship "Make in India" initiative;
- Regular appraisal: To provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

Status Holder:

- (a) Status Holders are business leaders who have excelled in international trade and have successfully contributed to country's foreign trade. Status Holders are expected to not only contribute towards India's exports but also provide guidance and handholding to new entrepreneurs.
- (b) All exporters of goods, services and technology having an import-export code (IEC) number shall be eligible for recognition as a status holder. Status recognition depends upon export performance. An applicant shall be categorized as status holder upon achieving export performance during current and previous two financial years, as indicated below. The export performance will be counted on the basis of FOB value of export earnings in free foreign exchange.
- (c) For deemed export, FOB value of exports in Indian Rupees shall be converted in US \$ at the exchange rate notified by CBEC, as applicable on 1st April of each Financial Year.
- (d) For granting status, export performance is necessary in at least two out of three years.
- (e) Export performance of one IEC holder shall not be permitted to be transferred to another IEC holder. Hence, calculation of exports performance based on disclaimer shall not be allowed.
- (f) Exports made on re-export basis shall not be counted for recognition.
- (g) Export of items under authorization, including SCOMET items, would be included for calculation of export performance.



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Category of Status Holder:

Status Category	Export Performance FOB/ FOR (as converted) Value (in US \$ million)
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

Grant of double weightage:

- (a) Eligible exports for double weightage: The exports by IEC holders under the following categories shall be granted double weightage for calculation of export performance for grant of status —
- Micro, Small & Medium Enterprises (MSME) as defined in Micro, Small & Medium Enterprises Development (MSMED) Act 2006.
 - Manufacturing units having ISO/BIS.
 - Units located in North Eastern States including Sikkim and Jammu & Kashmir.
 - Units located in Agri Export Zones.
- (b) One Star Export House only eligible: Double Weightage shall be available for grant of One Star Export House Status category only. Such benefit of double weightage shall not be admissible for grant of status recognition of other categories namely Two Star Export House, Three Star Export House, Four Star export House and Five Star Export House.
- (c) A shipment can get double weightage only once in any one of above categories.

Privileges of Status Holders: A Status Holder shall be eligible for privileges as under -

- Authorisation and Customs Clearances for both imports and exports may be granted on self-declaration basis;
- Input-Output norms may be fixed on priority within 60 days by the Norms Committee;
- Exemption from furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or HBP;
- Exemption from compulsory negotiation of documents through banks. Remittance/ receipts, however,



would be received through banking channels;

- (e) Two star and above Export houses shall be permitted to establish Export Warehouses as per Department of Revenue guidelines.
- (f) Three Star and above Export House shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of CBEC.
- (g) The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.
- (h) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods (as per their IEM/IL/LOI) as originating from India with a view to qualify for preferential treatment under different preferential trading agreements (PTA), Free Trade Agreements (FTAs), Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic Partnership Agreements (CEPA). Subsequently, the scheme may be extended to remaining Status Holders.

TREATMENT OF BORROWING COST (AS – 16)



Enterprises are borrow funds to acquire, build and install the fixed assets and other assets, these assets take time to make them useable or saleable, therefore the enterprises incur interest (cost of borrowing) to acquire and build these assets.

This Accounting Standard prescribes the treatment of borrowing cost (interest + other cost) in accounting, whether the cost of borrowing should be included in the cost of assets or not.

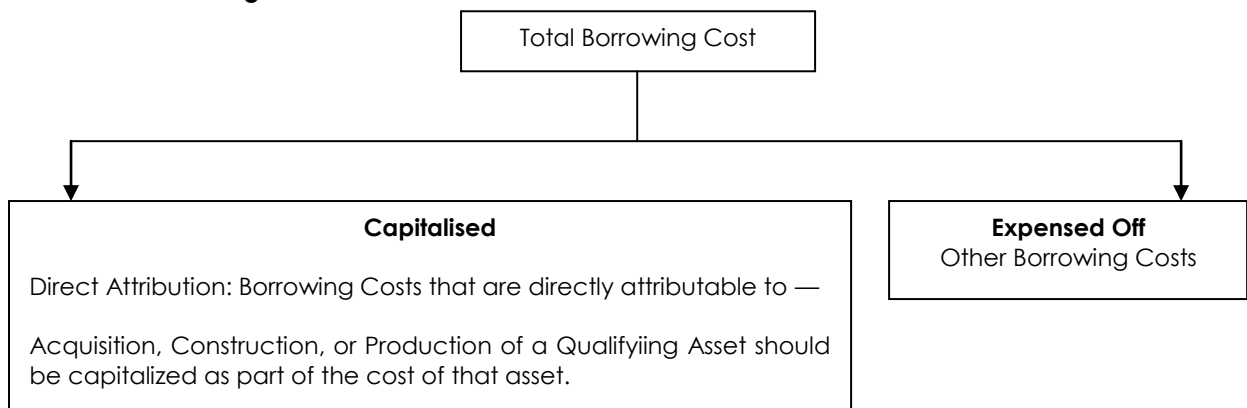


Borrowing costs are defined as interest and other costs incurred relating to borrowing of funds.

It includes the following:

- Interest and commitment charge on borrowing.
- Amortization of discounts or provision relating to borrowing.
- Amortization of ancillary costs incurred in connection with arrangement of borrower.
- Finance charges when the asset acquired under finance leases.
- Exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Treatment of Borrowing Costs



Qualifying asset — An asset which takes substantial period of time to get ready for its intended use or sale, is called qualifying asset.

Conditions for capitalization of borrowing cost —

- Borrowing costs, which are directly attributable to the acquisition, construction or production of qualifying asset, are eligible for capitalization.
- Directly attributable costs are those costs that would have been avoided if the expenditure on the qualifying asset had not been made.
- Qualifying assets will give future economic benefit to the enterprise and the cost can be measured reliably.

Amount of borrowing costs eligible for capitalization: Specific borrowing

Amount of borrowing cost to be capitalized (Amount borrowed is specifically for the purchase of qualifying assets) = Actual borrowing cost incurred during the period **less** any income on the temporary investment of borrowed amount.



- Amount of borrowing cost to be capitalized should be determined by applying a capitalization rate to the expenditure on that asset.
- The capitalization rate should be weighted average of borrowing cost,
- Amount of borrowing cost capitalized during a period should not exceed the amount of borrowing cost incurred during that period.

Commencement of capitalization of borrowing cost —

Following three conditions must be fulfilled before the commencement of capitalization of borrowing cost:

- Activities, which are essential to prepare the asset for its intended use, should be in progress.
- Borrowing cost is incurred.
- Expenditure for acquisition, construction or production of a qualifying asset is being incurred.

Expenditure on qualifying asset includes —

- payment of cash, transfer of other asset or assumption of interest bearing liabilities.
- Progress payment received and grant received towards the cost incurred should be deducted from the expenditure.

Suspension of capitalization of borrowing cost —

- Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted.
- Capitalization of borrowing costs is not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

Cessation of capitalization —

Capitalization of borrowing cost should cease when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are completed.

It means all relevant activities, which are essential for intended use or sale of qualifying assets, should be completed.

Construction of the qualifying asset is carried in parts/phase and each part/phase can be used independently, required activities are completed for such phase and it is ready for intended use or sale, capitalization of borrowing cost for such phase/part will cease.



QUESTION

The company has obtained Institutional Term Loan of ₹ 700 lakhs for modernisation and renovation of its Plant & Machinery. Plant & Machinery acquired under the modernization scheme and installation completed on 31st March, 2015 amounted to ₹ 600 lakhs, ₹70 lakhs has been advanced to suppliers for additional assets and the balance loan of ₹30 lakhs has been utilised for working capital purpose. The Accountant is on a dilemma as to how to account for the total interest of ₹ 63.00 lakhs incurred during 2014-15 on the entire Institutional Term Loan of ₹ 700 lakhs.



SOLUTION

As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Borrowing costs should be expensed except where they are directly attributable to acquisition, construction or production of qualifying asset.

The treatment for total interest amount of ₹ 63.00 lakhs —

Purpose	Nature	Interest to be Capitalized ₹ in lakhs	Interest to be charged to Profit and Loss Account ₹ in lakhs
Modernization and renovation of plant and machinery	Qualifying asset	$63.00 \times \frac{600}{700} = 54.00$	
Advance to supplies for additional assets	Qualifying asset	$63.00 \times \frac{70}{700} = 6.30$	
Working capital	Not a qualifying asset		$63.00 \times \frac{30}{700} = 2.70$
		60.30	2.70



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- A substantial period of time primarily depends on the facts and circumstances of each case.
- However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case.
- It is assumed in the above solution that the modernization and renovation of plant and machinery will take substantial period of time (i.e. more than twelve months). Regarding purchase of additional assets, the nature of additional assets has also been considered as qualifying assets. Alternatively, the plant and machinery and additional assets may be assumed to be non-qualifying assets on the basis that the renovation and installation of additional assets will not take substantial period of time. In that case, the entire amount of interest, ₹63.00 lakhs will be recognized as expense in the Profit and Loss Account for year ended 31st March, 2015.

