

Theme : COST AUDIT



Inside Bulletin

| | <i>Page</i> |
|---|--|
| Cover Stories : | |
| • Importance of Cost Audit | <i>CMA Santosh S. Korade</i> 4 |
| • Cost Audit Mechanism in India Vs Other Countries | <i>CMA Virendra Chaturvedi</i> 7 |
| • Cost Audit : Bird Eye View | <i>CMA Nikhil Pawar</i> 10 |
| CFO Speaks : | <i>CMA Bhadresh V. Mehta</i> 12 |
| Other Articles | <i>CMA (Dr.) Gaurav Sharma</i> 15 |
| • An Analytical study on financial impact of merger of | <i>CMA Manohar V. Dansingani</i> 19 |
| • Portfolio Analysis & Visualization with Excel | <i>CMA (Dr.) Subir Kumar Banerjee</i> 23 |
| • Global Corporate Misgovernance Lessons - Two Case Studies | <i>CMA Prutha Harshit Shah</i> 26 |
| • Can HUF make payment (Gift) to Married Daughter? | <i>Vishal Gupta</i> 28 |
| • A Note on Nominal & Real Cash-Flows | <i>CMA Rajesh Kapadia</i> 29 |
| • Importance of Proper Allocation, Apportionment and | 31 |
| Chapter News | |

**WESTERN INDIA REGIONAL COUNCIL
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**

(Statutory Body under an Act of Parliament)

Rohit Chambers, Janmabhoomi Marg, Fort, Mumbai 400 001.

Tel.: 2204 3406 / 2204 3416 / 2284 1138 • E-mail : wirc@icmai.in • Website : www.icmai-wirc.in



From the Desk of Chairman

Dear CMA Professional Colleagues,

It's a pleasure to communicate with you one more time. At the time of my last communication I was hopeful about conducting the elections for the office bearers of WIRC in the month of August. In-fact the elections were planned on 20th August 2020. But due to request from many Council Members to cancel the election in the light of the COVID19 travel restrictions the elections were cancelled. Now once again the elections are planned on 12th September 2020. I am one again hopeful that this time we will be conduct the election and we will soon have team of New Office Bearers for WIRC.

The AGM of WIRC was held on 19th August 2020 through Video Conferencing. For the first time in the history of WIRC the AGM of WIRC was conducted using Virtual Mode. I thank all the members of WIRC for their support and participation in the AGM of WIRC. The Accounts of WIRC for the year 2019-20 along with the Annual Report for the year were adopted by the AGM. AGM offers the opportunity for the members to meet each other and socialise. Due to the on-going pandemic situation, this could not be accomplished. I am looking forward to the time when we all can meet physically and have interaction.

WIRC has commenced its Online Oral Coaching Classes for the new batch. I am thankful to CMA Chaitanya Mohrir, CMA Vinayak Kulkarni & CMA Ashish Bhavsar for taking up the responsibility of coordinating with Chapters. I am pleased to inform you that many Chapters of WIRC are participating in this Online Training initiative of WIRC. I am thankful to the staff of WIRC & Faculty of WIRC for their continued wholehearted support.

WIRC Editorial Board under the leadership of CMA Ashish Bhavsar is doing a great job of bringing out quality editions of the WIRC Bulletin. This month the focus is on Cost Audit. Considering the Cost Audit period, it is the most appropriate time for sharing the knowledge on this specific subject.

The Institute has conducted Online Exam for the Foundation Students. I on behalf of WIRC congratulate our President CMA Balwinder Singh ji along with all the Council Members and the entire staff of the Institute involved in this exercise. This is the beginning of a new era in the Institute's examination system. I am confident this will open a lot of avenues for the Institute and will enable students across the globe to be part of our CMA Family.

Our Hon. Prime Minister, Shri. Narendra Modi ji has announced the vision of Make in India and Atmanirbhar Bharat. It is surely has created a spirit of nationalism, but it has also paved way for some professional opportunities. Local Content is becoming a buzz word. I have made representations to the Govt. Officials to increase the spread of this concept to promote the Atmanirbhar Bharat and Make In India concepts. But on a more individual level, I am of the opinion that the CMAs as professionals are best suited to help the organisations determine the Local Content and we have to explore this as a professional opportunity that will also have some social service angle to it.

The unlock process in India is in full swing, but at the same time the number of cases of COVID19 across the country are on steep rise. I urge all my fellow professionals to follow the norms of social distancing and take all the necessary precautions to keep yourself and the society healthy. I pray god for your safety and health.

“To keep the body in good health is a duty, for otherwise we shall not be able to trim the lamp of wisdom, and keep our mind strong and clear – Buddha”

Stay Healthy & Stay Safe !

Sincerely Yours,

CMA Neeraj Dhananjay Joshi
Chairman, ICAI-WIRC

Please follow the Norms of Social Distancing. Be Safe.



From Desk of Chief Editor

Dear CMA Professional Colleagues,

Hope you all are safe and doing well!!!

September is the month of audit and we all are busy in audit related work either as auditee or as auditor. Due to the pandemic of COVID it is very difficult time, both for auditor as well as auditee to complete audit task. Looking to the situation, editorial board had Chosen “Cost Audit” as theme for the month of September bulletin. We have received good response from members. Articles on the theme are published as cover story. We are also publishing articles on other professional matters. I am thankful to all authors for providing articles and making WIRC bulletin a Knowledge Pack.

We have also start publishing interview of CMAs who had reached a respectable position like CFO, VP, Director etc. Objective of the same to share their experience with CMA fraternity. It will inspire young CMAs for making future brighter. In this bulletin, we have published interview of CMA Bhadresh V. Mehta Global CFO of Symphony Limited. I am thankful to CMA Malhar Dalwadi for conducting the interview. I request our proud CMAs who reach this highest position during their career to share their experience with CMA fraternity. Please reach us so that we can conduct interview.

I urge members to share knowledge by way of article to make WIRC Bulletins Knowledge Pack.

We welcome suggestion and feedback for betterment of WIRC Bulletin.

Stay Safe

Happy Reading !!!

With Ward Regards

CMA Ashish Bhavsar

Chairman, Editorial Board



Importance of Cost Audit

CMA Santosh S. Korade

Mob.: 97305 77016 • E-mail : santoshkorde77@gmail.com

Abstract

As per Company Act 2013, Cost Records are to be maintained by such class of companies as prescribed, accordingly Companies (Cost Records and Audit) Rules, 2014 has issued and made applicable to such companies, Also cost audit is applicable to sectors mentioned in Table “A” for regulatory sectors and Table “B” for non-regulatory sectors on basis of turnover criteria. Cost Audit is one of the statutory audit mandatory as per Section 148 (2) of Company act 2013. This study is going to analyse the importance of cost audit in respect of numbers of stakeholders like as management, consumers, owners, government, general public etc.

Cost Audit - Meaning

Cost Audit is a critical review undertaken to verify the correctness of Cost Accounts and to check that cost accounting principles and planning have been efficiently followed. It is noteworthy that India is the only country which has introduced statutory cost audit to regulate about 39 vital industries of the country. Chartered Institute of Management Accountants (CIMA) of Landon defined Cost Audit as “the verification of cost accounts and a check on the adherence to the cost accounting plan.”

The ICAI (The Institute of Cost Accountant of India) defines Cost Audit as a “Statutory Cost Audit system of audit introduced by the government of India for the review, examination, and appraisal of the cost accounting records and attendant information required to be maintained by specified industries.”

This involves not only the examination of cost accounts but also the fact that the plan prepared in this connection has been duly executed. The first function of cost audit is the verification of cost accounting records according to the cost accounting system, and the second function is the checking on the adherence to the cost accounting plan.

The concept of cost audit has been elaborated by ICAI as ‘an audit of efficiency of minute details of expenditure, while the work is in progress and not a post mortem examination. Financial audit is a ‘fait accompli’, cost audit is mainly a preventive measure, a guide for management policy and decision in addition, to being a barometer of performance’. Cost Audit can be called efficiency audit.

Types of Cost Audit

- Cost Audit to Assist Management
- Cost Audit on behalf of the Government
- Cost Audit on behalf of a Customer
- Cost Audit on behalf of Trade Association
- Cost Audit on behalf of Tribunals
- Cost Audit under Statute

Statutory provision of Cost Audit in India

Central Government to Specify Audit of Items of Cost in Respect of Certain Companies (Section 148 of Company Act 2013)

148. (1) Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies:

Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.

(2) If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under sub-section (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.

Section 148 (1) read with Rule 3 of Companies (Cost Records and Audit) Rules, 2014 has specify class of companies (Turnover \geq 35 Crs) required to maintain cost records. Audit of records maintained as per Sec. 148 (1) is mandatory to such class of companies as per Section 148 (2) read with Rule 4 of Companies (Cost Records and Audit) Rules, 2014. So Cost Audit is one of statutory audit in India as like as Financial Audit. Table “A” of rule 3 covered regulatory sectors like as Telecommunications, Electricity, Petroleum Products, Pharmaceutical, Fertilizers, Sugar etc. Table “B” of rule 3 covered other important non-regulatory sectors.

Application of Cost Audit (Rule 4)

Every company will have to get its cost records audited in accordance with these rules, if:

| Particulars | Table A (Regulatory) | Table B (Non Regulatory) |
|---|-----------------------|--------------------------|
| Overall annual turnover from all its products and services during the immediately preceding financial year [and] | Rs. 50.00 Crs or more | Rs. 100.00 Crs or more |
| Aggregate turnover of the individual product or products or services or services for which cost records are required to be maintained | Rs. 25.00 Crs or more | Rs. 35.00 Crs or more |

Non applicability of Cost audit: Requirement of cost audit is not applicable to a company which is covered in Rule 3 of

Amendment Rules and

- Whose revenue from exports in foreign exchange exceeds 75% of its total Revenue.
- Which is operating from Special Economic Zone (SEZ).

Importance of Cost audit to Management

One of importance of a cost audit will be that management will be sure to get reliable data for its objectives like as price fixing, decision-making, control, etc. Existence of such a system of audit will also be of great use for maintaining internal check and control and will be of great help to even financial audit. But it must be understood that the aims of financial and cost audit are different. Cost Audit will establish the accuracy of cost of each product, job, activity, etc., and is concerned with proper analysis of information and its estimation so that management gets the necessary information promptly. Apart from reliability of data, cost audit should afford certain incidental advantages. Rather, it should be said that cost audit will help consolidate and realize advantages expected from a system of costing.

The auditing of cost accounts acts like a useful tool in the hands of management for the detection of frauds, inconsistencies and irregularities. The function of the cost auditor is such as lubricating the machines that is why effective, reliable and smooth functioning of the costing system is sustained. On cost reports after cost audit greater reliability can be put and, So decision making can be made more confidently. Audited cost accounts are useful in making inter-firm comparison. The presence of cost audit has a great moral affect as a result of which the efficiency is promoted. Cost audit reduces the cost of production through plugging loopholes relating to wastage of material, labour and overheads. Cost audit can fix the responsibility of an individual wherever irregularities or wastage are found.

Cost audit improves efficiency of the organization as a whole and costing system in particular by constant review, revision and checking or routine procedures and methods. Cost audit helps in comparing actual results with budgeted results and points out the areas where management action is more needed. It also enables comparison among different units of the factory in order to find out the profitability of the different units. Cost audit exercises moral influence on employees which keeps them efficient and alert. This audit ensures that the cost accounts have been maintained in accordance with the principles of costing employed in the industry concerned. It provides information relating to weak, inefficient or mismanaged units for taking proper corrective action and also helps to identify the symptoms of sickness in a unit.

Practical utilities of Cost Audit Report to Management

1. Materials Consumption

In order to comply with the rules, a Record of item-wise receipts of all major materials is necessary so as to include the following information, viz. A cursory glance of the above would reveal the following features: Fluctuations in the rate of materials purchased from various suppliers, trend in the landed cost of materials, trend in the rates of materials, and abnormality in any item in any of the consignments received. This will help the management to explore the possibilities of changing the source of supply and/or mode of despatch, sales tax management, developing alternative transport if the element of freight is

substantial, and Changing the clauses of insurance policy, if called for etc

2. Materials Usage

This analysis could reveal the following features-

Abnormal difference in consumption of any particular raw material or process material, abnormal draws of material on any particular day or month, identification of events for excessive material consumption on some particular day, etc., keeping in view the correlation of output and input and the knowledge of actual consumption, the management may draw 'regression curves' for its in-depth analytical studies for future course of action.

3. Cost of Services

The Rules specifically demand maintenance of detailed records to ascertain the cost of Services/Utilities such as power, fuel, water, steam, electricity, etc. These detailed information break-ups could reflect:

Abnormal consumption of materials used for the generation of steam/hot oil, etc., under-utilisation of capacity, and time lost due to breakdown, and so on. Furthermore, if the cost is substantial, the services utilised over the year are reconciled with the services generated. The factors, like leakages, abnormal losses would come to light this way.

4. Control over expenditure

Cost Audit is useful tools in Manpower planning — for reduction in salaries and wages, Inventory planning — for reduction in interest cost, Maintenance scheduling — for cost control, Expenditure planning — for quality, research, etc, Budgetary Control - for reduction in Cost, Cost Control

Importance of Cost audit to Shareholders/ Investors

Cost audit ensures that proper records are maintained as to purchases, utilization of materials and expenses incurred on various items i.e wages and overheads etc. It also makes sure that the industrial unit has been working efficiently and economically. The cost audit enables shareholders to determine whether or not they are getting a fair return on their investments. It reflects managerial efficiency or inefficiency. Cost audit ensures a true picture of company's state of affairs. It reveals whether the resources like plant and machinery are being properly utilized or not. Cost audit makes sure that inventory of raw materials, work-in-progress and finished goods have been correctly valued. So it helps in providing to the shareholders a very much better picture of the organisation.

Importance of Cost audit to Statutory Auditor

The statutory auditor can establish the scope and character of his audit after containing an appraisal of costing system used through the organisation.

- (a) The valuation of closing inventory is prepared on the basis of cost or market price, whichever is less. Cost records assist the statutory auditor in determining the cost of such type of inventory.
- (b) Cost records will be useful in ascertaining the correctness of the remuneration payable to employees or directors like a percentage of gross profit or departmental profits.

Importance of Cost audit to the Government

Cost audit assists the ‘Tariff Board’ in deciding whether tariff protection should be extended to a particular industry or not. It helps to ascertain whether any particular industry should be given any subsidy in order to develop that industry. It provides reliable data to the government for fixing up the setting prices of the various commodities. Cost audit helps the government to take necessary measures to improve the efficiency of sick industrial units. It can reveal the fraudulent intentions of the management. Cost statements may be helpful to authorities in imposing tax or duty at the cost of finished products (CGST Rule 30). Cost audit facilitates settlement of trade disputes of the companies.

Cost audit is useful in ascertaining cost claims submitted to the Government under the cost plus contract. Government departments like Railways, Defence Supplies, Directorate General Supplies and Disposals etc. are making use of cost audit reports for the determination of cost claims. Cost audit creates confidence that the costs stated by the contractor are legitimate and accurate. Correct action can be taken through the Government in case management is found to be weak, not efficient or corrupt. In case of escalation clause being involved in the contract, the contractee can be sure regarding the cost data if cost accounts have been audited through qualified cost accountants. Cost audit pinpoints the areas in which economy and efficiency can be achieved. So, it contributes in the direction of the betterment of national economy

Importance of Cost audit to Society

Cost audit tells the true cost of production. From this the consumer may know whether the market price of the article is fair or not. The consumer is saved from the exploitation. It improves the efficiency of industrial units and thereby assists in economic progress of the nation. So price increase by the industry is not allowed without justification as to increase in cost of production, consumers can maintain their standard of living. Healthy competition between dissimilar units in industry is generated, leading proper utilisation of scarce resources.

Following statement of the HR Gokhale Ex-minister of Law, Justice and Company Affairs emphasizes the social advantage of cost audit. “The objective of this measure (cost audit) is to protect consumers from unwarranted increase in prices. Reasonableness of the prices charged can only be ensured by correct determination of costs and the margin charged by producers and their retailers. Another object underlying this step is to make the industries covered by such rules alert and efficient and also to make them know their rational cost with a view to reducing it to the extent possible. Thus by resorting to this method, the interest of consumer is safeguarded and it is definite step towards removal of social injustice”.

Importance of Cost audit to Trade Associations

Sometimes, a trade association may appoint a cost auditor to conduct cost audit:

1. to ascertain comparative profitability of its members ;
2. to determine minimum price to avoid cut throat competition among its members;
3. to maintain prices at a certain level so as to prevent undue profiteering.

Importance of Cost audit to Customer

Sometimes, cost audit may be conducted on behalf of a customer

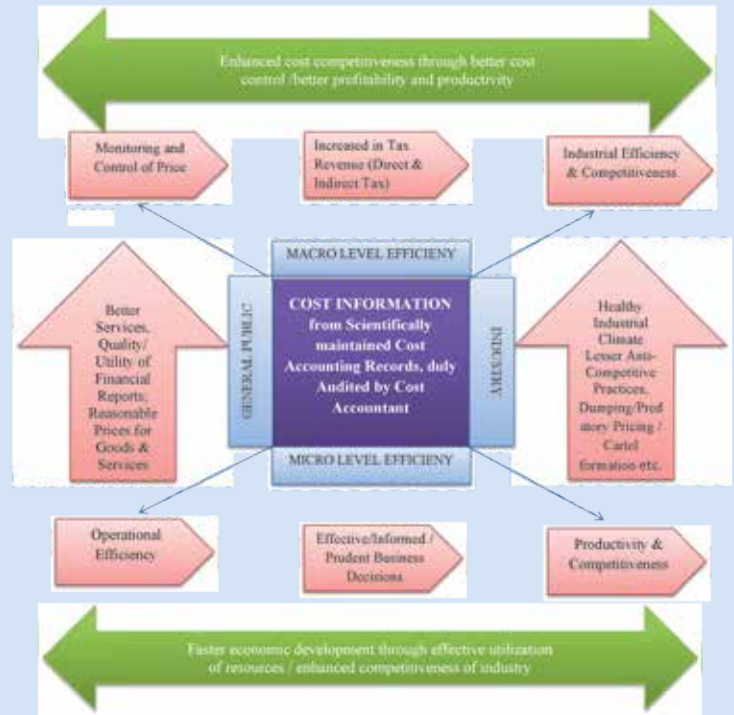


Figure: Utility of Cost Audit Information: to the Economy, Industry unit, Public

when he agrees to pay price for a certain product on “cost plus” basis. The customer in such a case gets cost accounts of the product concerned audited to establish correct cost so that he may be able to pay price on the basis of correct cost plus an agreed margin of profit.

Cost Audit & Role of CMA

Cost audit is to be conducted by Cost Accountant (CMA), so role of CMA is become very important & crucial in this competitive era. It's not just auditing the cost records but industries expecting beyond the audit from CMA. Expectation of stakeholders have increased from CMA as CMA is making them sure about secure return on their investments, prevention of fraud and malpractices, cost controls avoiding unnecessary & abnormal expenditure etc. CMA shall pinpoints the areas in which economy and efficiency can be achieved. So, it contributes in the direction of the betterment of national economy. One the importance role of CMA is development, designing & strengthening of Costing system as per requirement of industry, so management is enabling to take intellectual, smart and effective decision on the basis of information provided from costing systems. That's is reason to say “Behind Every Successful Business Decision, there is always a CMA.”

Conclusion

Information is wealth and if its audited then it's become more reliable, so audited cost information is become one of the requirements of current competitive era for management as well as others stakeholders. Thus, cost audit is neither evil nor burdensome. The cost audit report, in fact, can work as a ‘catalyst’ to the existing management information system.

References

- <https://icmai.in>
- <http://ebook.mca.gov.in>
- <https://www.taxmanagementindia.com>
- <https://www.iedunote.com/cost-audit>



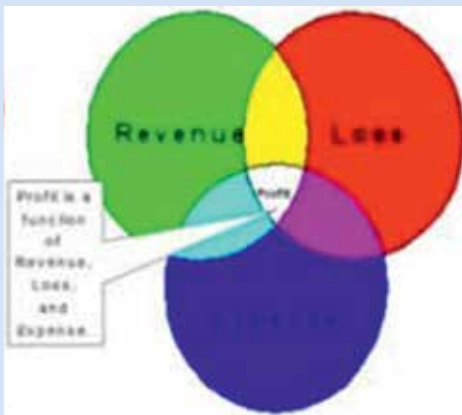
Cost Audit Mechanism in India Vs Other Countries

CMA Virendra Chaturvedi

Mob.: 93100 39375 • E-mail: cwaviren@gmail.com

Cost audit is the process of ascertaining whether the production, marketing and Sales processes, as well as other aspects of a business, are managed in the most Cost-effective manner. So Cost audit is a tool to optimize management efficiency. “Prevention is better than Cure”, In fact, cost audit helps in getting early warning signals for timely remedial actions.

Any audit provides reasonable assurance about the integrity of audited information. For example, financial audit provides assurance to shareholders and other stakeholders about the integrity of information provided through financial statements. Cost Audit provide assurance from an independent agency about the integrity of cost and revenue information that is placed before Board of Directors to analyses of cost and revenue data which help in critical decisions and strengthen corporate governance



Cost audit is very relevant for companies operating in a competitive environment. Though one organization has to incur extra cost for Maintaining cost accounting records and getting cost audit done but Benefits from cost audit are more than its cost. If a company is already maintaining cost records, the incremental cost is only audit fee. The cost of regular staff, which supports the audit, is fixed in nature. Therefore, while the cost is immaterial, benefits in terms of improved corporate governance are immense

India has given recognition to the Statutory Cost Audit under the Company law as back as in 1965. The government has notified the Companies (cost records and audit) Rules 2014 on June 30, 2014. The new Rules mandate the maintenance of cost records in companies engaged in the production of specified goods in strategic sectors, companies engaged in an industry regulated by a sectoral regulator or a ministry or department of central government, companies operating in specified areas of public interest and companies engaged in the production, import and supply or trading of specified medical devices. The Rules also provide for a threshold

in terms of net worth or turnover of companies, thus, restricting its applicability to large companies.

Provisions akin to Cost Audit in some Other Countries:

In case of western countries and other parts of the globe the nomenclature “Cost Audit” is not used but several variations thereof and several terminologies are coined which is nothing but “Cost Audit”. As India has adopted the basis of Turnover. Net Worth and Stock Exchange Listing etc. The other countries have adopted various basis like whether there is Government Grant or Support etc. In USA, the Cost Accounting Standards are mandatory for use by all Executive Agencies and by contractors and subcontractors where procurement exceeds US \$5 million. Thus, the cost reporting is done on “set” principles akin to the concept of cost audit. In USA. one of the Treasury Department’s order said that the state auditor shall annually make a cost-audit examination of the books and records and make a written report thereon to the country legislative authority.



United Kingdom (UK):

To determine sustainability and worthiness of any activity or project, UK Government expects the use of full economic costing as a more accurate way of analysis. The full economic cost should be calculated net of any expected revenues for each option. In some regulated industries, regulators may require accounts, statistics, business plans, capital expenditure projections, or operating expenditure calculations from participants. These are used to compile an overall picture of the sector, for general monitoring, and sometimes to set price caps and other price controls. The focus of the Regulatory bodies is on the efficient and fair working of the markets they oversee, and hence their scope is wider than accounting information, the usual approach in the UK is that a piece of legislation would establish the

purpose and scope of the regulatory body, and the regulator body itself would determine the exact nature of the information it requires. Examples of regulated industries in UK are Airports. Communications, Education. Energy, Food standards. Pensions, Postal services. Railways, Health care. Social care and Water.

Germany

Cost accounting and Cost management have played a major role in the German competitive edge in high technology manufacturing. The popular ERP SAP has a module on management accounting called Controlling Module which originated only from the German company practices. German costing method focused on marginal costing that is helpful to support short-term decisions. Considering the application of cost information in public works contract management, taxation and pricing, the following can be said to be the major

Interest groups on cost and management accounting:

- Regulators
- Taxation authorities
- Public works contract departments
- Postal authorities
- Corporate sector
- Management accounting departments of business entities
- SAP as a major stakeholder in building cost and management accounting
- modules in the software, and
- Academician from business schools



Canada:

Canada basically being a developed economy the corporate culture supports best practices. Hence in the absence of cost accounting standards, management accounting guidelines issued by CMA Canada play a major role in injecting quality in the cost and management accounting practices. CMA Canada also issues Management Accounting

Practices Statements (MAP). MAP specifically gives the tools to enhance the internal operations of the organization as well as to provide information to enable shareholders to evaluate performance of organizations.

In Ontario the CMAs are allowed to sign balance sheets and profit and loss accounts like chartered accountants and hence are subject to the jurisdiction of the Securities Commission. There is no requirement to have such information certified by an independent professional.

Australia:

In Australia, the Cost and Management Accounting interest groups exist both internal as well as external to a business entity. Cost Accounting mechanism also exists as per the insistence of some regulatory authorities. The ICMA, Australia is proposing “Strategic Audits” in Australia for the business to adhere to the Cost Accounting Principles.

Korea:

In Korea, the Institute of Chartered Accountants has issued the cost accounting standards applicable to Korean companies by amending the Accounting regulation in 1990. The regulations clearly state that these are meant for measuring product costs in preparing financial statements. More than 30 standards have been issued for adoption and the manufacturing companies and later to the banks and financial institutions. Korea’s Financial Accounting Standards require publication of separate schedule of manufacturing cost and schedule of cost of sales.

Spain

In Spain, cost systems are essential for city councils as they are obliged to calculate the cost of the services subject to taxation (eg. waste collection, etc). City councils must have a cost system in place to calculate the cost of services, as they are legally required not to ‘profit’, from these services.



Argentina

In Argentina the removal of tariff barriers with the country’s “Mercosur” partners (Brazil, Paraguay and Uruguay) has been seen as stimulating competition and consequently increasing the demand for strong cost management.

Brazil

The establishment of a system for the accurate calculation of the costs of production of goods and services meets three

requirements.

a) Compliance with the Law of PLC companies:

Law No. 6404, known as the PLC Companies Act, but also applicable to other types of companies, requires that the accounting entries are made in accordance with generally accepted accounting principles in Brazil.

However, the method of calculation of costs of production that respects these accounting principles is the one called “by absorption”. Under this method, all production costs, direct and indirect, should be included in the cost of the finished products.

b) Compliance with Tax Law:

Brazilian tax law requires of the company to maintain an integrated cost management system, linked with the general ledger. This requires a formalization of cost accounting by:

1. A cost analysis system,
2. Classification and accounting,
3. Information generation and edition of management reports on costs of production.

c) Addressing the needs of management:

The introduction of cost accounting, which aims to provide the management with information necessary for controlling the activity – including the monitoring of profit margins – is key to the success of any business. With such a system, the issue is not complying with local accounting principles or fiscal constraints, but bringing to the management reliable and relevant information.

The calculation of costs must be supported by figures of general accounting, and must allow the monthly calculation of the value of stocks.

In the calculation of income tax and social contributions, the only accepted method of calculating costs of production is the method “by absorption”.

In the absence of the integrated system of calculating costs “by absorption”, the tax authorities may make an arbitrary assessment of stocks of finished and in-process goods.

Japan

They are regulations in the Cost Accounting Standards (CAS) in Japan since 1962. Even these standards are not compulsory, manufacturers still use them. CAS regulations are quite relative, For instance to the classification of operating departments versus support ones and to the allocation of support departments. Japan Cost Accounting Association is actually considering the revision of CAS regulations in order to adapt them to new business circumstances.

France

The influence of legal obligations on accounting policy was so strong that French firms were reluctant to divulge their costs and keep a strong separation between financial and cost accounting. French companies tended not change

their cost accounting systems, allocating real costs to the products via the homogenous sections method. But external influences must also be mentioned

China

In China. Ministry of Commerce and Ministry of Finance are the only two Regulatory Bodies interested in accessing the cost information of any business entity. The adoption of 2006 Accounting System for Business Enterprises (ASBE) by the Chinese companies has made external reporting closer to international standards. The Rules on Cost Accounting of Power Transmission and Distribution have been published by China’s State Power Regulatory Commission

Hong Kong

The Internal Audit group in Hong Kong has developed diagnostic tool kits to assist in enhancing operational efficiency and reducing costs to improve an organisation’s competitiveness. This review will produce a list of opportunities for cost reduction/efficiency improvement, and estimated potential cost savings/improvements if implemented.

The reviews focus on 9 key business areas:

- General Management Control
- Billings and Receivables
- Procurement and Payment
- Expenditure and Expenses
- Inventory Management
- Cash Management
- Human Resources
- Financial Accounting and Management Reporting
- Information Technology

Price control environment in various countries made a major influence on cost accounting practices. This is particularly during the post world war environment and after that during Globalization. Governments of various countries have traditionally played a major role in the evolution of cost accounting practices. Policy intervention, administered pricing, social pricing, funding plans and so on and so forth could be the reasons for such a role. As a result they have put forward detailed requirements on cost accounting in judicial or even a quasi judicial form.

**An investment in
knowledge pays
the best interest.**

Benjamin Franklin



Cost Audit : Bird Eye View

CMA Nikhil Pawar

Mob.: 9021831683 • E-mail : pawarniks11@gmail.com

Introduction:

In this article we will try to understand cost audit related important forms. I hope readers find it useful.

CRA-1: Forms in which cost records shall be maintained.

This form prescribes the form in which cost records shall be maintained and detailed information about each elements and their treatments etc.

CRA-2: Form of Intimation of appointment of cost auditor by the company to Central Government.

CRA-3: Form of Cost Audit Report

This form CRA-3 provides format in which the Cost Auditor has to submit his cost audit report to company.

CRA-4: Form for filing cost audit report with the Government.

On the receipt of cost audit report from cost auditors the company has to submit the same to Central Government in form CRA-4.

Time limit to submit CRA-2:

The company shall inform to the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within 30 days of the Board Meeting in which such appointment is made or within 180 days of the commencement of the financial year, whichever is earlier, through electronic mode in form CRA 2 along with the fees as specified in companies (Registration offices & fees), Rules.

CRA-3: Cost Audit Report:

In CRA-3, Cost Auditor needs to mention following observations & Suggestions:

- 1) They have/have not obtained all the information & explanations, which is necessary for the purpose of audit.
- 2) To check & confirm, proper cost records, (as per rule 5 of the companies (Cost Records and Audit) Amendment Rule, 2014 have been/have not been maintained by the company.
- 3) To check & confirm information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/ rendering of service(s), cost of sales, margin and other information relating to product(s), service(s) under reference.
- 4) Detailed unit-wise & product service- wise cost statements and schedules thereto in respect of the

product/service under reference of the company duly audited and certified by auditor are /are not kept in company.

2) General details of Cost Auditor:

Like, Category, Firms reg.no., Name, PAN, Address, E-mail ID, Membership number, name, names of product(s) or service(s) with CETA Headings, SRN NO.of form CRA-2, No. of audit committee meeting attended by Cost Auditors during year, date of signing cost audit, place of signing cost audit.

3) Cost Accounting Policy:

Under this describe the cost accounting policy adopted by the company and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realizable and margin of the product(s)/ service(s) under reference separately for each products.

The policy should cover, inter alia; the following areas:

- a) Identify of cost centers.
- b) Accounting for material cost including packing materials, stores and spares etc., employees cost, utilities and other relevant cost components.
- c) Accounting, allocation & Amortization of overheads.
- d) Accounting for Depreciation / Amortization.
- e) Basis for Inventory Valuation

4. Product/service details (for the company as a whole)

| Name of product(s)/ service(s) | UOM | CETA Heading | Whether covered under cost audit | Net operational revenue (Net of taxes) |
|---|-----|--------------|----------------------------------|--|
| Total Net Revenue from operation | | | | |
| Other Income | | | | |
| Total Revenue as per Financial Accounts | | | | |
| Turnover as per GST | | | | |

Part B

For manufacturing Sector

1. Quantitative Information(for each product with CETA Heading Separately)

- a) Available Capacity
- Installed Capacity

- b) Actual Production
 - c) Production as per Excise Records
 - d) Capacity Utilization
 - e) Finished Goods Purchased
 - f) Stock and Other adjustments
 - g) Total available Qty for sale
 - h) Actual Sale
- 2) Abridged cost statement
 - 2a. Details of material consumed.
 - 2b. Details of utilities consumed.

Part D: Profitability Statement

- 2) Profit Reconciliation (Company as a whole)
 - 1) Profit or Loss as per cost accounting records

Add: Income not considered in cost accounts

Less: Expenses not considered in cost accounts
 - 4) Diff. in valuation of stock between financial accounts and cost records.
 - 5) Other adjustments, if any
 - 6) Profit or Loss as per financial accounts
- 3) Value addition and Distribution of earnings.

- 4) Financial Position & Ratio Analysis (For the company as a whole)
 - a) Financial Positions.
 - b) Financial Performance.
 - c) Profitability Ratios.
 - d) Other Financial Ratios.
 - e) Working Capital Ratios.
- 5) Related Party Transactions (For the company as a whole).
- 6) Reconciliation of Indirect Taxes (GST) for the company as whole are covered under this section.

Every cost auditor appointed as such shall continue in such capacity till the expiry of 180 days from the closure of the financial year or submission of cost audit report, for the financial year for which he has been appointed.

CRA 4: Submission of Cost Audit Report

A Company shall within thirty days from the date of receipt of a copy of the cost audit report shall furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein. ■

वेदान्त कोई पाप नहीं जानता ,
 वो केवल त्रुटी जानता है .
 और वेदान्त कहता है कि
 सबसे बड़ी त्रुटी यह कहना है
 कि तुम कमजोर हो ,
 तुम पापी हो, एक तुच्छ प्राणी हो,
 और तुम्हारे पास कोई शक्ति नहीं है
 और तुम ये वो नहीं कर सकते .

-Swami vivekananda





CFO Speaks

CMA Bhadresh V. Mehta

CMA Bhadresh V. Mehta ACA, ACMA, ACS, DISA, IFRS with Versatile knowledge base is a Senior Professional in Finance, Costing, and Corporate Management. A competent professional with a proven success of over 30 years in steering Finance, Costing, Taxation, Audit, Info-tech, and audit functions with reputed business groups.

His Major experiences / areas are **Finance, Accounts, Treasury function including Cash Flow Management, Forex Risk Management**, Fund-raising, Costing, MIS and Budgeting, Decision making process, Working Capital Management, Systems & Procedures, I.T. Systems, IFRS & Audit.

He had Developed and implemented & Institutionalized system of Risk Assessment and Management techniques across all SBUs & Functions and reporting the Risk Status to the Board. He had very good knowledge and experience of ERP systems including SAP.

During his bright professional career, he won many awards and medals. He Won a **Silver Medal at International Essay Competition** for Essay on 'Growth without Inflation'. He also won Best CFO Award for "Sustained Wealth Creation" under category of "Medium Corporate" in the year 2018. He also won Yes Bank-BW Best CFO Awards in the year 2019.

1. What do you feel about your role as global CFO of a multinational company?

- As a Global CFO of my company (Symphony Limited), an Indian MNC, operating in 5 different geographies with operating companies in India, Mexico, China, Australia and USA with different time-zones, I feel satisfied having successfully performed my roles, responsibilities, duties and obligations.
- I look back to the day I joined in December 2009 (more than 10 years ago) and soon became a CFO and started handling all CFO roles with an eye on the then-recently acquired a Mexican Company (Impco S de R L de C V, Mexico) a loss making company (on the verge of closure), located in a Spanish Speaking country (I did not know Spanish then), which after sustained all-round efforts of about 3 years got turned around and then over past 10 years generated a profit of over Rs.100 Cr on an investment of merely Rs.4Cr.– a true success story.
- Another role I had played with a second acquisition, i.e. of a Chinese Company located in Dongguan, Guangdong province on South East China, another loss making company, which also we could take to cash breakeven in just 3 years. At present, due to Covid, it is suffering, but we believe, it would be a temporary phase.
- Third one, a major acquisition of an Australian company, was in June 2018. We have been able to bring out lots of improvements in this company as well and still the process of further improvements and making the business grow are ongoing.
- As a Global CFO, having been bestowed upon with

variety of roles and responsibilities, I need to and have always been performing a 24*7*365 kind of duties and responsibilities and I keep enjoying the same.

- I am fortunate to have a good dedicated team not only in India but also at respective subsidiaries (local country persons only – Mexican / Chinese / Australian etc.) but it did require lots of efforts for me to bring them in tune with what we call in our company "Symphonomics", key term – "Add Value – Reduce Costs" a basic Mantra for Success.

2. What are your main constraints/ challenges you face as global CFO of a multinational company?

- As a global CFO, the challenges and constraints are both local as well as global. Local are related to variety of Indian compliances, an ever increasing competition, demanding situations, attending to the requirements of each stakeholders, (being a listed limited company -also having variety of global investors which include more than 100 FIIs / DIIs, with over twenty six thousands of shareholders). Local challenges also include keeping pace with ever-changing legal frameworks and frequent changes on regulations.
- Global challenges and constraints include – variety of different legal provisions in different countries where our subsidiaries are located – Mexico, China, Australia and USA, their different work cultures, different languages, different time zones in which they operate and above all different business models and different scale of operations, processes, procedures, systems etc.
- With frequent visits in each of these countries,

developing good relations, handling the situations with congenial, cooperative, but firm attitude, developing and inculcating sense of responsibilities in all my colleagues – be he or she is Indian or foreigner, also learning their respective languages (I learnt Spanish to a great extent, and Chinese a little)— these all helped me a lot in overcoming the constraints and managing and meeting successfully all the challenges.

3. What inspires you to pursuing CMA with other professional qualifications?

- First of all, CMA is an exhaustive and comprehensive course, which not only focuses on Cost accounts or Financial management, but on all key areas of the business and industry of any kind, as also service sector.
- The aspects (syllabus) covered in CMA course provides a conceptual clarity of variety of business scenarios and equips CMAs with how-to develop a strong data analytical base and how to attend to variety of business decision making situations.
- CMA course curriculum prepares, equips, nurtures and also maintains level of knowledge in CMAs, making them ready to meet with business situations – be it private sector or public sector, or be it industry or service sector.
- Over and above CMA, I had chance to get through CA as well as CS. But I joined CMA first and it did help me a lot, in my professional career.

4. How the CMA qualification helps you in your career path?

- As a CMA, from day one, my focus in all situation had been to not-only on cost-consciousness, rather more on “value-consciousness”.
- Cost is inevitable, though it can be controlled in many situations, but the concept of cost is relative to concept of Value and both have to go together.
- CMA course helped me in shaping my career path towards going to the minutest level in each activity – identifying the root causes, the grass root of the data, the deeper most part of the issue or a problem.
- It helped me analysing all the issues with utmost depth and clarity.

5. How would you evaluate the role of CMA in manufacturing industry?

- Manufacturing industries has unique challenges. Though it depends on kind of industries, variety of processes, materials to FG conversion processes, levels of controls at various stages, level of automation & IT enabled systems, level of adherence to cost accounting standards, cost records, cost controls, etc.
- CMA is well trained by our institute and having been well equipped to handle all situations and analyse the costs, financial implications.

- He has to follow material balancing theory and match all material movements till the ultimate level.
- He has to keep an eye on the cost parameters, and its movements identify the areas of cost variances, budget variances, and help company achieve its targets and budgets.
- He has to be aware of global and local changes in the price movements of company’s key materials and all input costs.

6. How a CMA can be helpful to industry in Cost Control and Cost Saving, specially engineering industry?

- Engineering industries has uniqueness in its different processes, and its cost parameters and more particularly when it is a capital goods supplier. The demand may vary as market forces change, and company’s production schedules or plans go haywire.
- CMA has to be dynamic player to control costs and let the company control the situation and come out of the same by not only cost control but also cost savings, creating reserves to meet the situation.

7. What are your views about statutory cost records maintenance?

- Cost records provide very useful data to the management.
- To be effective, the Cost records should not be a periodic or annual subject, but has to be a day-to-day or rather transaction-to-transaction based updated records
- As cost (moving average cost) can change with every transaction and hence the cost records has to be a live cost, a real time cost.
- With ERP kind of software, this is truly possible.
- More importantly CMAs have to learn maintaining cost records on real time basis, that is, transaction to transaction based live cost records.

8. Does the Cost Audit create value addition for industry?

- Cost audit, normally is an annual exercise.
- If the statutory audit can be quarterly for applicable companies, why can the Cost audit not be a quarterly one?
- Cost audit frequency may be increased which can definitely add more values to the organisations.

9. How the performance appraisal report by cost auditor which is laid down in earlier rules 2011 will be useful to industry?

- The performance appraisal report (Form III) of erstwhile Cost Audit Report provided useful analysis of Capacity Utilization, Productivity and Efficiency Analysis, Utilities and energy efficiency analysis, Contribution Analysis, Product Profitability Analysis, etc.

- For any company or organisation, these are very useful analysis and brings in limelight the true parameters of the company's performance.
- Cost auditor, may, even if not required in the new form of cost audit report, continue to provide this as an additional vital information to the management.

10. What are the key challenges for auditee and auditor for completing audit task under this pandemic situation of COVID?

- Covid19, an unprecedented pandemic of the century, which started in the beginning of 2020, has created a havoc, a panic in the entire world. It has affected everybody in one or the other way, and even today the solution is not visible.
- Cost auditor and the auditee both faced different challenges.
- Auditee had faced challenges in business operation due to extended lockdowns, and even in unlock periods, absenteeism, productivity loss, reduction in efficiency, increased cost, and above all loss of sales, increased stocks and storage costs, etc. etc.
- Cost auditor has to face challenges in understanding these changes situation and analyse it correctly and suitably incorporate in his audit report.

11. What are the positives of new normal?

- Governments in India – both Central and states- have taken various effective steps to control the situation. We do not debate on level of effectiveness. But as a responsible citizen, let us accept this New Normal as a way of life and move forward. Let these obstacles be converted into Opportunities for the growth of our country.

12. Your message to young CMAs.

I have faith on my professional brothers, fellow CMAs and their capabilities.

I would like to say. In brief, just 5 points:

- Be always ready to learn and do devote sufficient time
- Always be ready to accept any work - any challenging work
- Be positive
- Be what you want to be
- Be courageous but accept failure instantly and attend challenges with more vigour and
- zeal.

Interview by CMA Malhar Dalwadi



Education in the true sense is helping the individual to be mature and free, to flower greatly in love and goodness. That is what we should be interested in, and not in shaping the child according to some idealistic pattern.

Jiddu Krishnamurti

quodlibet



An Analytical study on financial impact of merger of Dena Vijaya bank with Bank of Baroda

CMA (Dr.) Gaurav Sharma

E-mail: gauravsharma6586@gmail.com

ABSTRACT: Indian economy is witnessing of sound banking system since creation of banking act, for the purpose of strategic reorganization of banking sector in india large number of significant steps have been taken towards financial and forward economic integration of indian banking sector in India, Out of these major steps banks have been nationalized in year of 1969 and 1980 respectively, further with effect of post economic reform after year of 1991 banking sector have become more competitive and rationalized due to foreign direct investment in banking sector, software based upgradation of banking services, compliances of banking norms etc. In last twenty years of period merger in banking sector has emerged as one of the major strategic tools for organic growth of public and private sector banking in India. Recently government has announced merger of public sector banking out of these merger one of the merger that has been taken place from 1st of April 2019 is merger of Dena, Vijaya bank with bank of Baroda. Research is attempt on systematic analysis of various area of merger with the help of effective financial statement, key area of performance analysis and ratio analysis of merging and merged entity from various recognised area of merger as per object of study.

Key Words : Merger, Swap ratio, Merged and Merging entity, market capitalization, legal management.

Introduction:

Indian economic system is great witnessing of financial reconstruction of Indian banking system, steps towards financial reconsolidation in pre economic reform era there where fourteen and six bank has become nationalised from year of 1969 and 1980. with effect of post economic reform there are so many forward steps had been taken over by government towards financial reorganization of Indian banking system, out of these steps in last two decade of time period merger of banking sector in India had emerged as one of the significant strategic tools for financial reconstruction and reconsolidation of public and private sector banking in India. In year of 2018 Government of India has decided mega bank merger of ten public sector bank in to four large public sector banking with forward strategic efforts towards merger of public sector banking. Government has decided to merge Dena, Vijaya bank referred as merging entity in to bank of Baroda referred as merged entity which had taken effect from April first of 2019. In corporate term Merger is an arrangement between two or more entities where all the assets and liabilities of merging entity transferred to merged entity for pre-determined swap ratio as per agreement and resolution passed by board of directors and meeting of shareholders. In merger shareholders of merging entities get shares in merged entity as per scheme

of merger. research paper is based on attempt of financial, economic, market based impact of merger by public sector bank such as Vijaya, Denabank with bank of Baroda by way of systematic analysis in various area of requirement of merger according to object of study.

Objectives of study:

1. To study about effect of merger on market leadership position of merged entities in banking sector of India.
2. To Study about Synergies effect for economic scale of merger because economic resources of merging entities and merged entity will work together after merger.
3. To Study about pattern of NPA management of merged and merging entities that can be carry forwarded by new entities hence new merged entities will get income tax benefit from profit benefited after merger.
4. To study about pre and post-merger market stake holding by shareholders of merged and merging entities because in case of merger there are a lot of compliance, legal management will have to comply like legal requirement, capital adequacy norms, prompt corrective action, loan disbursement and other margin requirement as per banking act and other provision of law for time being in force.
5. To study about effect of congeneric merger to profit making merging entity vijaya bank and its market ratio arrangement in market position of banking sector by effect of merger.

Statement of problem:

In merger profit making bank also merged with loss making bank and have to work with merged entities. There are lot of problems of human behaviour, cultural integration, legal and compliance based management, re stance from employee's side and so many financial and legal issue loss in market share of merging entities, loss in pattern of shareholding, reduction in market size etc. which are part of merger in Indian banking sector that have to be complied after merger by merged and merging entities.

Limitation of study:

Study is based on financial and economic parameters of merger with systematic analysis of financial statement and ratio analysis of merging and merged entities from a specific time period. There are various factors and issues involved in case of merger like non-financial issues, management related issues, compliance based management, corporate and strategies related problems, human behaviour, cultural integration related issues have not been incorporated in research study.

Importance of study:

Merger is one of the organic method of growth for corporate entities in research study there are various financial and non-financial area from audit report market report, ratio analysis like profitability, solvency and liquidity of merging and merged entities have been included and concluded in appropriately according to object of study. This study is also important in analysis of various area of merger like of share holding pattern, NPA management, operating management of economic of scale, capital adequacy requirement, market swap ratio market analysis of merger on merged and merging entities.

Research methodology:

For systematic analysis and appropriate conclusion of study research methodology has been organised in following manner

1. data collection: data are collected from secondary sources which consist annual, audit report and financial ratio based analysis according to object of study of study.
2. Time period: total of three years' annual report have been taking in to account for study and five years' ratio analysis at different level have become analysed.
3. Research area: total of ten recognised area of effective banking system at different parameters have been taken from annual report of merging and merged entities for object of study.
4. Ratio selection: from profitability, solvency, liquidity, efficiency ratio eight core ratio have been selected according to object of study.
5. Statistical tools: for appropriate measurement of result percentage and average method have applied.
6. Swap ratio: ratio of share exchange between merged and merging authorities on effective date of merger

For shareholders of Dena bank: 110 shares in bank of Baroda for every 1000 shares.

For shareholders of Vijaya bank: 402 shares in bank of Baroda for every 1000 shares.

7. Effective date of merger: date on which merged entity allotted shares to merging entities which is 11th of march 2019.
8. Loss on post-merger to shareholders: due to merger on market valuation date on the basis of closing price of shares of merging entities as on 2nd of January 2019 will become loss to 27% to shareholders of Dena bank and 6% to shareholders of Vijaya bank.

Compliance of issues in case of merger:

There is large number of list of provision which need to be compiled in pre and post-merger event section 44A and 45 of RBI act 1949 deal with merger of banking by reserve bank of India apart from it there are some other laws that also need to be complied in pre and post-merger event which are followings.

1. Reserve bank of India act 1949.

2. Companies act 2013.
3. Companies court rules 1959.
4. Competition act 2002.
5. Income tax act 1961.
6. Goods and services tax act 2017.
7. Securities contract regulation act 1957.
8. Rules and provision of concern stock exchange.
9. Order and notification of central government.
10. Securities exchange board of India act 1992.
11. Indian stamp duty act of concern state.
12. Any other act which is relevant for time being in force.

Hypothesis of study:

There is no difference in actual and expected result of variables in study in other words null hypothesis (H₀) has been applied in study on the basis of below mentioned point

1. Merged entity shall have become one of the largest share in loan market of banking sector in India.
2. Merging entity Vijayabank and Dena bank has to suffer loss on market share due to swap ratio agreed by government.
3. After merger merged entity will comply various banking norms such as capital adequacy requirement, NPA management, BASEL norms, margin requirement etc. in more efficient manner.

Table 01

History of merger in banking sector since year 2001

| Year | Name of merging bank | Name of merged bank |
|------|---|-------------------------------|
| 001 | Bank of maroda | ICICI bank Ltd. |
| 2002 | Banaras state bank Ltd. | Bank of Baroda |
| 003 | Bank of Muscat | Centurion bank of Punjab Ltd. |
| 2004 | Global trust bank Ltd. | Oriental bank of commerce |
| 2005 | Bank of Punjab Ltd. | Centurion bank of commerce |
| 2006 | Lord Krishna bank Ltd. | Centurion bank of commerce |
| 2006 | United western bank Ltd | IDBI Ltd. |
| 2007 | Sangli bank | ICICI bank |
| 2008 | Bank of saurastra | S.B.I bank |
| 2009 | Centurion bank of punjab | HDFC bank |
| 2010 | Bank of Rajasthan | ICICI bank |
| 2015 | ING vsysa bank | Kotak Mahindra bank |
| 2017 | State bank of jodhpur and Bikaner State bank of Patiyala State bank of Hyderabad State bank of Mysore State bank of Travancore Mahila bank | State bank of India |
| 2019 | Dena bank Vijaya bank | Bank of Baroda |

Sources: www.icsi.edu.in

Table 02

Analysis of key area of performance of merged and merging entities from financial year 2016-2018

| Area of performance | Dena bank Merging entity | | Vijaya bank Merging entity | | Bank of Baroda Merged entity | |
|--------------------------------------|--------------------------|---------|----------------------------|---------|------------------------------|---------|
| | Total | Average | Total | Average | Total | Average |
| Employees number | 41504 | 13835 | 46302 | 15434 | 160103 | 53368 |
| Operating profit | 3487 | 1163 | 7068 | 2355 | 40743 | 13581 |
| Net profit or (Net loss) | (3722) | (1241) | 1859 | 620 | (6444) | (2148) |
| Earnings per share or loss per share | (45.45) | (15.15) | 17.17 | 5.72 | (26.60) | (8.67) |
| Gross NPA | 37540 | 12513 | 19915 | 6638 | 139720 | 46574 |
| Net NPA | 20804 | 6935 | 13416 | 4472 | 60969 | 20323 |
| Gross NPA | 48.29 | 16.09 | 19.57 | 6.55 | 32.71 | 10.91 |
| % of Net NPA | 28.96 | 9.65 | 13.49 | 4.50 | 15.28 | 5.10 |
| Capital adequacy BASEL% | 33.48 | 11.16 | 70.68 | 23.55 | 37.54 | 12.51 |

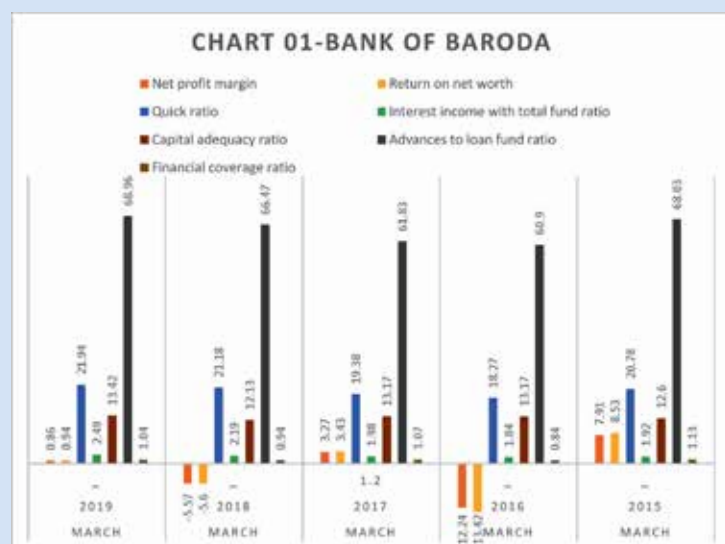
Sources: Annual report of merging and merged entity from 2016- 2018

Table 03

| Particulars | March 2019 | March 2018 | March 2017 | March 2016 | March 2015 | Average |
|---------------------------------------|------------|------------|------------|------------|------------|---------|
| Dividend perShare | — | — | 1.20 | — | — | — |
| Net profit margin | 0.86 | - 5.57 | 3.27 | - 12.24 | 7.91 | —1.154 |
| Return on net worth | 0.94 | -5.60 | 3.43 | -13.42 | 8.53 | —1.224 |
| Quick ratio | 21.94 | 21.18 | 19.38 | 18.27 | 20.78 | 20.31 |
| Interest income with total fund ratio | 2.49 | 2.19 | 1.98 | 1.84 | 1.92 | 2.084 |
| Capital adequacy ratio | 13.42 | 12.13 | 13.17 | 13.17 | 12.60 | 12.90 |
| Advances to loan fund ratio | 68.96 | 66.47 | 61.83 | 60.90 | 68.03 | 65.24 |
| Financial coverage ratio | 1.04 | 0.94 | 1.07 | 0.84 | 1.13 | 1.004 |

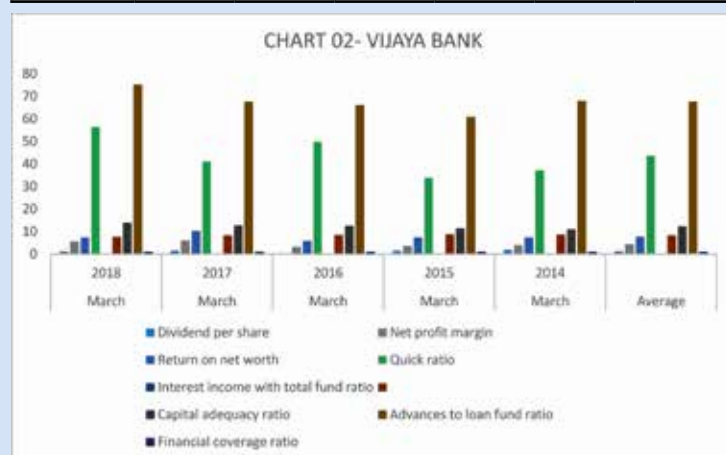
Key Financial Ratio of Bank of Baroda from 2019-2015

Sources: [www. Money control.com](http://www.Money control.com)

**Table 04**

Key Financial Ratio of Vijaya Bank from 2018-2014

| Particulars | March 2018 | March 2017 | March 2016 | March 2015 | March 2014 | Average |
|---------------------------------------|------------|------------|------------|------------|------------|---------|
| Dividend pershare | 1.20 | 1.50 | - | 1.50 | 2.00 | 1.24 |
| Net profit margin | 5.57 | 6.06 | 3.15 | 3.58 | 3.88 | 4.44 |
| Return on net worth | 7.39 | 10.25 | 5.84 | 7.41 | 7.37 | 7.65 |
| Quick ratio | 56.32 | 41.03 | 49.90 | 33.80 | 37.18 | 43.65 |
| Interest income with total fund ratio | 7.61 | 8.29 | 8.42 | 8.78 | 8.64 | 8.35 |
| Capital adequacy ratio | 13.90 | 12.73 | 12.58 | 11.43 | 10.97 | 12.33 |
| Advances to loan fund ratio | 75.27 | 67.58 | 66.07 | 60.90 | 68.03 | 67.57 |
| Financial coverage ratio | 1.10 | 1.09 | 1.05 | 1.05 | 1.06 | 1.07 |

**Table 05**

Key financial ratio of Dena bank from 2014-2018

| Particulars | March 2018 | March 2017 | March 2016 | March 2015 | March 2014 | Average |
|-----------------------------------|------------|------------|------------|------------|------------|---------|
| Dividend per share | — | — | — | 0.90 | 2.20 | — |
| Net profit margin | -21.53 | -8.48 | -8.78 | -2.46 | 5.52 | -7.146 |
| Return on net worth | -20.89 | -12.52 | -13.09 | 3.56 | 7.72 | -7.044 |
| Ratio of interest with total fund | 7.13 | 7.74 | 8.08 | 8.45 | 8.37 | 7.954 |
| Capital adequacy ratio | 11.09 | 11.39 | 11 | 10.93 | 11.14 | 11.11 |
| Quick ratio | 41.52 | 30.95 | 37.27 | 29.49 | 34.35 | 34.71 |
| Financial charges coverage ratio | 1.19 | 1.18 | 1.12 | 1.17 | 1.24 | 1.18 |
| Advance to loan fund ratio | 57.35 | 59.80 | 67.74 | 67.30 | 70.25 | 64.50 |

Sources: [www. Money control .com](http://www.Money control.com).

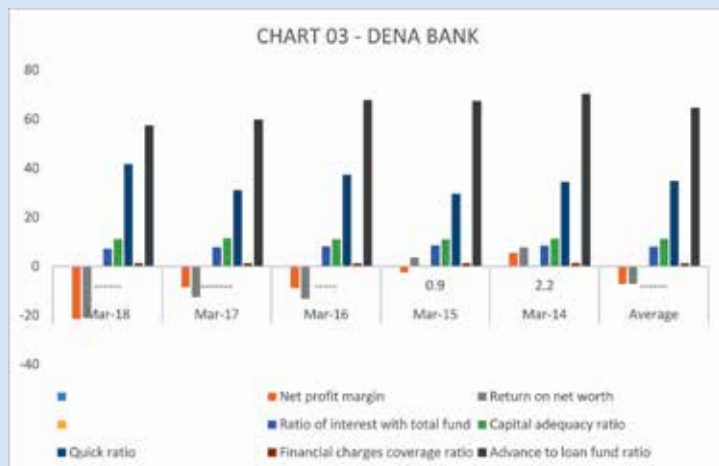


Table 06

Analysis of swap ratio purchase consideration on the basis of second quarter result 2018 of financial year 2018-2019

| | Bank of Baroda | Dena Bank | Vijaya Bank | Merge dentity |
|--|----------------|-----------|-------------|---------------|
| Share capital | 5304 | 22591 | 13042 | 6850 |
| Reserve and Surplus | 447031 | 57972 | 95889 | 634978 |
| NET WORTH | 452335 | 80562 | 108931 | 641828 |
| Number of shares in (MN) | 2646 | 2259 | 1304 | 3418 |
| Swap ratio | NA | 0.11 | 0.402 | NA |
| Number of new shares (MN) | NA | 248 | 524 | NA |
| Current market price per share on effective date | 119.4 | 17.95 | 51.05 | NA |
| Current market capitalization | 315875 | 40550 | 66577 | 408142 |
| Current market capitalization of merging entity on the bases of swap | NA | 29612 | 62567 | NA |
| Loss on market share | NA | 27% | 6% | NA |

Sources: market report of motilaloswal securities limited

Problems and difficulties in study:

1. Dena and Vijaya banks are regional banks having their head offices in Mumbai and south India so amalgamation of corporate cultural issues is big problem for merger.
2. Forward integration of top level management and ego problem among executive staff.
3. Loss to shareholders of Vijaya bank due to agreed swap ratio of merger.
4. recovery of bad loans and NPA management by merged entities is also a problem.
5. Due to merger government has to infused near about 5040 crore rupees to merged entities for capital requirement.
6. condolidation of various branch regional offices with due procedure of banking norms such as IFCS, MICR.

branch code, CIN code and other banking services by merged entities after post-merger event.

Suggested outcomes:

1. merged entities shall have one of the largest banking branch network near about 10,000 branches across India which would be helpful for merged entities.
2. As per study of various report merged entity shall have 6.9 percent share in advance and 7.4 percent share in deposit market of Indian banking sector.
3. Prompt corrective action issued by RBI to various bank will become reduced due consolidated financial reporting of merged entities.
4. share of government stake holding will increase from 63.70 percentage to 65.70 percentage due to infusion of capital of near about 5040 crores by government.
5. Due to merger merging and merged entities will work under control of single management which will become helpful for management and compliance of various banking norms for merged entity.

Result of hypothesis:

1. Accepted: Because after merger merged entities will become third largest market share in loan and advances market according to various report on merger.
2. Accepted: Because of merger shareholders of merging entities Dena and Vijaya bank have to suffer loss of 27% and 6% respectively on the basis of swap ratio as per closing market price of shares on stock exchange.
3. Accepted: Because of merged entity will become able to manage various compliances of banking under consolidated manner of management.

References:

- www. Money control .com
 www. Live mat.com.
 www. Rbi.org.in
 www.mca.gov.in
 www.economic times.com.
 www.bank of india.com
 www.vijaya bank.com.
 www.dena bank.com
 report of merger of bank of barada, dena and vijaya bank 2019 by motilaloswal company limited
 income tax act1961,section 72 to80 for assessment year 2019-2020
 Securities exchange board of india act 1992
 Reseve bank of india act1949
 Company act and rules 2013

About Author

H.O.D. Department of Commerce
 Government C.L.C College Patan, Durg (C.G)



Portfolio Analysis & Visualization with Excel

CMA Manohar V. Dansingani

E-mail : mdansingani@gmail.com

“Successful investing is anticipating the anticipation of others.”

— John Maynard Keynes

Disclaimer

No investment recommendations are being made by the author. This is neither an invitation to invest, nor an encouragement to follow any particular style of investment.

The portfolio shown is purely for illustrative purposes & not a suggestion. The returns shown are just numbers included at random, not actual returns on these shares.

Every tool is only as good as the person wielding it. There is no error-proof tool or investment theory. All market investments carry risk.

Abstract

Most investors build a portfolio without effectively monitoring it. With inadequate analysis, no portfolio can be optimal.

Excel has some extremely powerful charting functions which make decision making easier.

Just because an entire portfolio is doing reasonably well does not mean it cannot be improved.

Readers are encouraged to open a spreadsheet & replicate the processes shown here, to gain confidence.

Good investing may be dull, but good investment analysis can be intriguing & simulating.

Note :

The interested reader is requested to read the following articles by the author in Portfolio Organizer (PO), & Treasury Management (TM) – both IUP Publications, for detailed discussions on the concepts briefly covered here:

1. CAPM: The Risk Return Trade-off – PO, October 2015
2. Portfolio Theory & Selection – PO, April 2016
3. Portfolio Optimization with Excel – TM, February 2019
4. Making Sense of Mutual Fund Factsheets: Part I – Equity – PO, June 2019

Introduction

Vidya (Finance Professor) & Ravi (husband, Architect) were out for their morning walk amidst a steady drizzle of rain.

“Strange weather”, remarked Vidya: “It’s raining even in November!”

“Not as strange as our investment portfolio. I can’t make much sense of it, except that we seem to be in positive territory” replied Ravi. “I have prepared a list with our cost price when we started the portfolio & the value today, but something seems to be missing.”

“Let us spend some time on our portfolio this Sunday. I’ll show you how an Excel sheet can be a great friend for the average investor.” Vidya promised.

(What follows is a gist of their discussions that Sunday)

Portfolio Seems Good: What Now?

The first thing to remember is that the current market price is not a clear indicator of the total returns from our investments. The companies may have paid out dividends, issued bonus shares, rights shares...etc. Please use adjusted prices for a more accurate comparison.

Table 1 shows what the portfolio looked like on 1/11/2019.

| S.N. | Company | Cost 31/10/16 | Adjusted CMP 1/11/19 |
|-------|---------------------|---------------|-------------------------|
| 1 | L&T | 7,00,000 | 10,90,000 |
| 2 | NESTLE INDIA LTD | 3,75,000 | 9,40,000 |
| 3 | RELIANCE INDUSTRIES | 4,50,000 | 8,65,000 |
| 4 | ICICI BANK | 3,75,000 | 4,50,000 |
| 5 | WIPRO | 2,10,000 | 3,40,000 |
| 6 | BAJAJ AUTO | 2,25,000 | 2,90,000 |
| 7 | MARUTI SUZUKI INDIA | 1,60,000 | 80,000 |
| TOTAL | | 24,95,000 | 40,55,000 |

Table 1: Portfolio Status on 1-11-2019

This looks fine, but an additional column may be added to assess the profit or loss, as shown in Table 2.

Adjusted price includes the benefits of all corporate actions like dividends, bonus, rights etc.

| S.N. | Company | Cost 31/10/16 | Adjusted CMP 1/11/19 | Profit/Loss |
|-------|---------------------|---------------|-------------------------|-------------|
| 1 | L&T | 7,00,000 | 10,90,000 | 3,90,000 |
| 2 | NESTLE INDIA LTD | 3,75,000 | 9,40,000 | 5,65,000 |
| 3 | RELIANCE INDUSTRIES | 4,50,000 | 8,65,000 | 4,15,000 |
| 4 | ICICI BANK | 3,75,000 | 4,50,000 | 75,000 |
| 5 | WIPRO | 2,10,000 | 3,40,000 | 1,30,000 |
| 6 | BAJAJ AUTO | 2,25,000 | 2,90,000 | 65,000 |
| 7 | MARUTI SUZUKI INDIA | 1,60,000 | 80,000 | -80,000 |
| TOTAL | | 24,95,000 | 40,55,000 | 15,60,000 |

Table 2: Portfolio Status with Profit/Loss on 1/11/2019

Except for one investment here, all the others have shown profits.

“A good sketch is better than a long speech” – Napoleon Bonaparte.

Excel can save you from many long speeches with some easy, but effective charting tools.

Figure 1 is a screenshot showing how to prepare a column chart.

Start by highlighting cells C19 to G29 as shown here; next select the “Insert” tab at the top, & click on the “Column” tab from the “Charts” option. Finally, select the option best suited for your purpose. Here, we have used the first option.

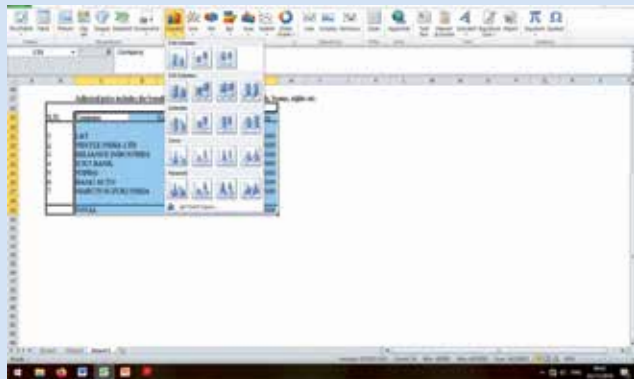


Figure 1: Screenshot: Preparing a Column Chart

Figure 2 is the actual chart, which makes the data absolutely clear.

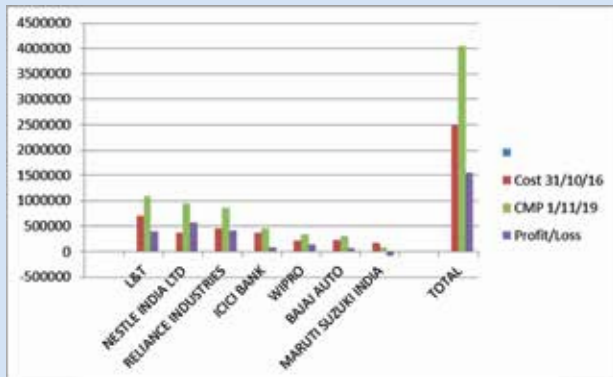


Figure 2: Column Chart from Table 2

Figure 3 is a screenshot showing the portfolio with relative weights, based on the current market price. This is an invaluable input for diversification & risk reduction.

Please note that the total must be 1.00 (100%), since we have considered the entire portfolio.

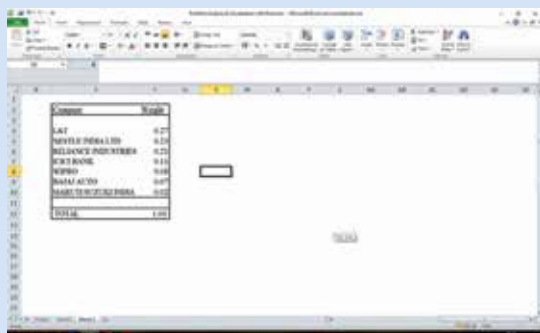


Figure 3: Screenshot of Table with Weights of Individual Stocks in the Portfolio

Figure 4 shows how to create a pie chart displaying the portfolio distribution among different shares; & Figure 5 is the actual Pie Chart.

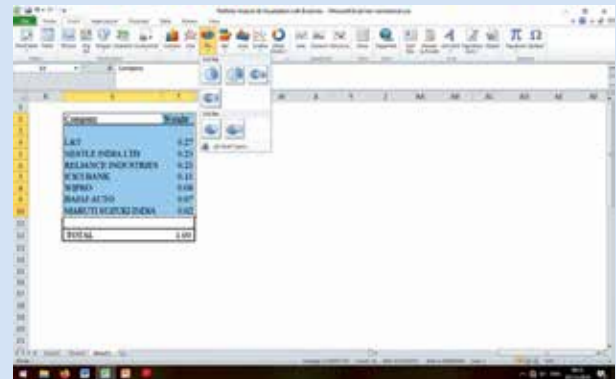


Figure 4: Screenshot: Preparing a Pie Chart of Weights in the Portfolio

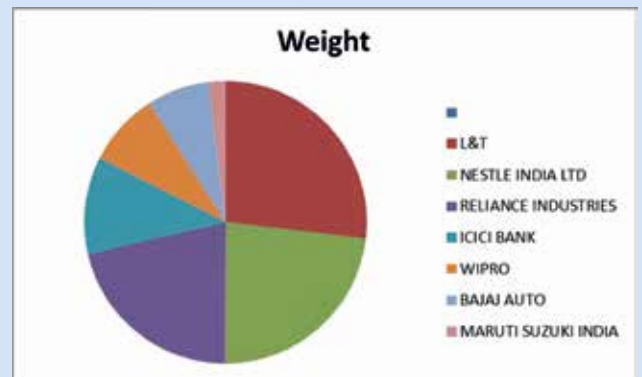


Figure 5: Pie Chart showing Portfolio Weights

Would it not be great to see the actual weights also in this pie chart? Excel is like your personal genie. No sooner said than done!

Figure 6 is a screenshot of how you set up the pie chart to show percentages as in the original table.

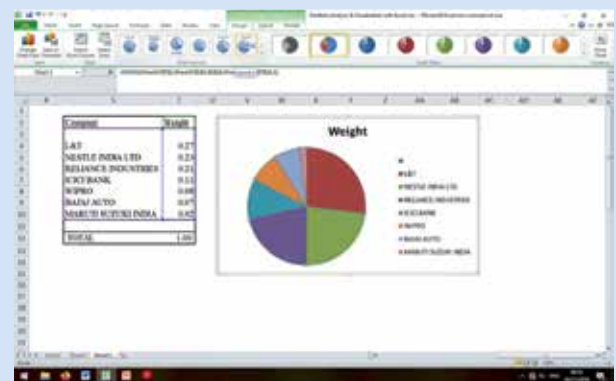


Figure 6: Screenshot: Adding Percentages to the Pie Chart

Figure 7 is the final output which gives a synopsis of the investments in a visually appealing, easy to understand format.

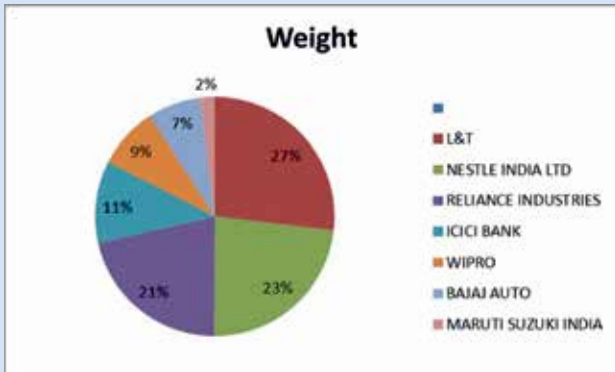


Figure 7: Pie Chart with Portfolio Weights as Percentages

Now it is abundantly clear that the bulk of the portfolio is concentrated in three shares, viz. L&T, Nestle, & Reliance. This makes it easier to re-balance the portfolio, or evaluate the option of adding other shares &/or exiting existing investments.

The discerning reader will want more details about the returns, not just absolute profit. Hence we add a column for CAGR (Compound Annual Growth Rate)

Figure 8 is a screenshot of the table showing CAGR.

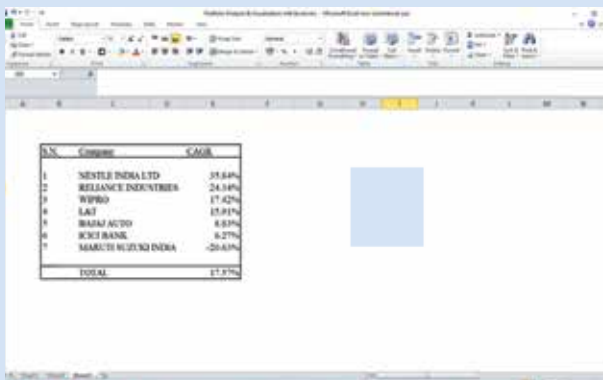


Figure 8: Screenshot with CAGR Column

CAGR is calculated in Excel as follows:
 CAGR of L&T (held for three years)
 $(1090000/700000)^{(1/3)} - 1 = 15.91\%$

It becomes apparent now, that the best performance is by Nestle India Ltd, followed by Reliance Industries, & so on.

Figure 9 explains how to create a chart for the CAGR table in Figure 8, while Figure 10 is the actual chart of CAGR of this portfolio & its components.

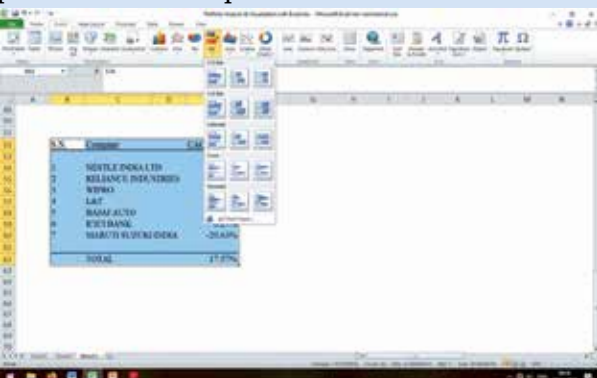


Figure 9: Screenshot: Preparing a Bar Graph of the CAGR Table

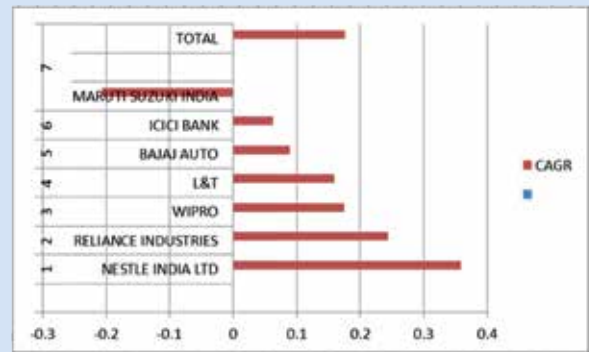


Figure 10 : Bar Graph of CAGR

Beta

Beta of a share is its systematic risk. It is the sensitivity of returns on the share to returns from the market.

Figure 11 shows the 3-year beta of each of these shares, as well as the portfolio beta; which is nothing but a weighted average of betas of the individual components in the portfolio.

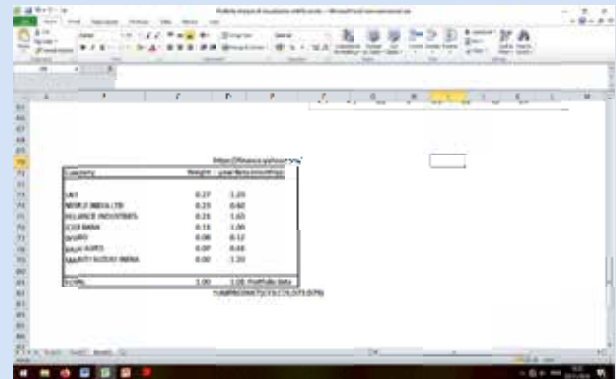


Figure 11: Screenshot: Beta of the Shares & the Portfolio

L&T’s beta of 1.20 indicates that in the past, when the market went up by 10%, L&T delivered positive returns of 12% (& when the market fell by 10%, L&T gave negative returns of 12%).

Higher the beta, more sensitive is the stock to market movements. The beta of the market as a whole is 1.

Beta of the portfolio can be calculated by using the Excel function “SUMPRODUCT” as indicated above.

More on Risk

Total risk is measured by standard deviation.

This includes both company specific risk, & market risk.

Company specific, diversifiable, unique or un-systematic risk can be reduced by investing across sectors, preferably those with low correlation.

Market risk, beta, non-diversifiable or systematic risk cannot be done away with.

Given the assumption (unproved & unlikely) that investors are rational, the market should only reward one for the market risk or beta.

Caveat for Beta

Please remember: the beta we use is historical, but the

market is dynamic & hence beta changes every instant. Also there could be a daily, weekly, monthly or even 20 year beta!

Once again it is clear that no one tool or theory will suffice for successful investing or risk management.

Managing Beta

You wish to invest an additional ¹ 500,000, but you also want to further reduce your portfolio beta.

Wipro, Nestle & Bajaj Auto have betas of less than 1 & should hence serve the purpose.

However, you zero in on Nestle for this investment.

The fresh status will be as shown in Table 3 (after the additional purchase, ignoring transaction costs)

| S.N. | Company | Adjusted CMP 1/1/19 | Weight | 3 year Beta (monthly) |
|-------|---------------------|------------------------|--------|--------------------------|
| 1 | L&T | 10,90,000 | 0.24 | 1.20 |
| 2 | NESTLE INDIA LTD * | 14,40,000 | 0.32 | 0.60 |
| 3 | RELIANCE INDUSTRIES | 8,65,000 | 0.19 | 1.63 |
| 4 | ICICI BANK | 4,50,000 | 0.10 | 1.09 |
| 5 | WIPRO | 3,40,000 | 0.07 | 0.12 |
| 6 | BAJAJ AUTO | 2,90,000 | 0.06 | 0.61 |
| 7 | MARUTI SUZUKI INDIA | 80,000 | 0.02 | 1.20 |
| TOTAL | | 45,55,000 | 1.00 | 0.96 Portfolio Beta |

* 500,000 additional investment in Nestle today

Table 3 : Managing Beta

Notice the change in weights of each share in the portfolio, which in turn alter its beta; lowering it from 1.01 to 0.96

Caution

Excel can help with both analysis & visualization of investment portfolios. This was a preliminary discussion with basic tools.

Care must be taken however, to keep the big picture in mind. The goal is to make good investment decisions, based on an accurate analysis of data. The purpose is certainly not to create more intricate tables, formulae & diagrams which are awesome, but serve little purpose in optimizing investment returns.

Conclusion

Ravi was so impressed by Vidya’s knowledge & her ability to explain complex things simply, that he requested her to take charge of their investments from now on.

“Here’s to serious long-term wealth creation” he said, raising a toast to her with a mug of steaming coffee.

“Cheers!” Vidya’s eyes sparkled with happiness at being appreciated.

Parting Thought

“Even the intelligent investor is likely to need considerable willpower to keep from following the crowd.”

Benjamin Graham

Table 1 : Portfolio Status on 1/11/2019

Table 2 : Portfolio Status with Profit/Loss on 1/11/2019

Table 3 : Managing Beta

Figure 1 : Screenshot: Preparing a Column Chart

Figure 2 : Column Chart from Table 2

Figure 3: Screenshot of Table with Weights of Individual Stocks in the Portfolio

Figure 4: Screenshot: Preparing a Pie Chart of Weights in the Portfolio

Figure 5: Pie Chart showing Portfolio Weights

Figure 6: Screenshot: Adding Percentages to the Pie Chart

Figure 7: Pie Chart with Portfolio Weights as Percentages

Figure 8: Screenshot with CAGR Column

Figure 9: Screenshot: Preparing a Bar Graph of the CAGR Table

Figure 10: Bar Graph of CAGR

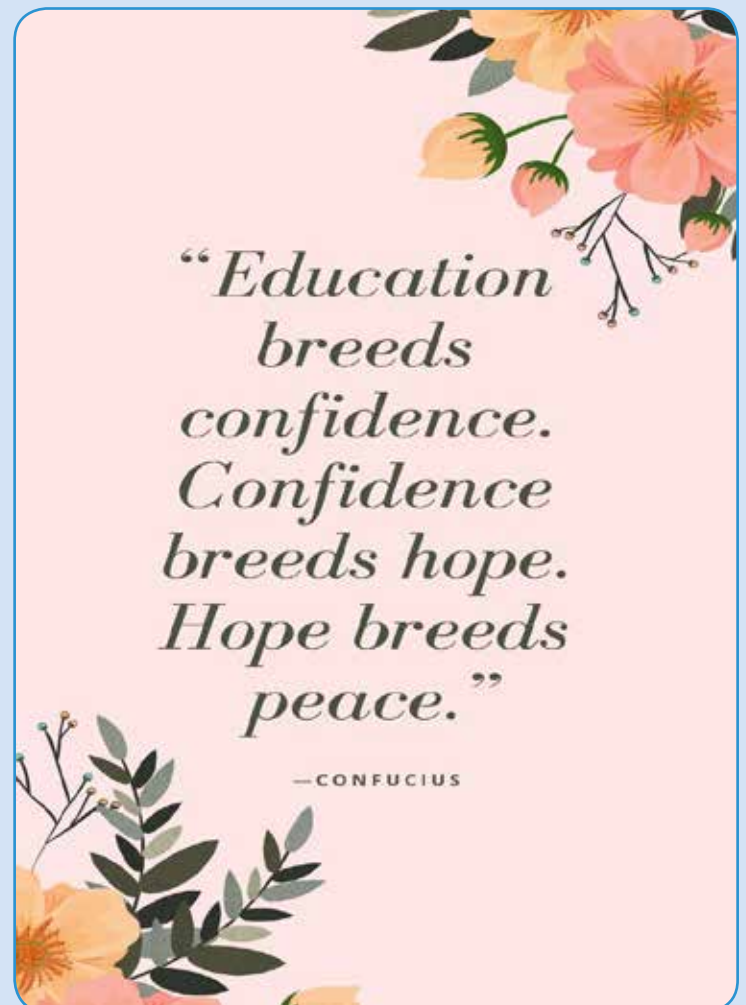
Figure 11: Screenshot: Beta of the Shares & the Portfolio

E&OE. Without prejudice, without recourse.

CMA Manohar V. Dansingani

mdansingani@gmail.com

(This article was first published in Portfolio Organizer, an IUP Publication, in December 2019. Reprinted with permission)





Global Corporate Misgovernance Lessons - Two Case Studies

CMA (Dr.) Subir Kumar Banerjee

Mob.: 98201 13419 • E-mail : subirkumar.banerjee@gmail.com

Every year yields number of company crisis and some of them have no link to the financial disaster. These are big blows to concerned stakeholders. Based on studies of these corporate live cases, all of us learn the lessons. That is why we can put on microscope the reasons of corporate failure.

Key Issues Behind Corporate Misgovernance

- Lack of Executive Board Effectiveness** - This happens in absence of skills and incompetence of Executive Board coupled with inability of proper say of Independent Directors on senior executives effectively.
- Boards' Risk Blindness** - This is marked by a board's inability to involve with key risks like risks to reputation and "licence to operate", with the same seriousness that they involve with reward and opportunity.
- Poor Leadership On Ethos And Culture** - Twin standards were applied in cases such as Maclaren's handling with its US and UK push-chair (baby stroller) recalls and Société Générale's ignoring breach of trading limits.
- Defective Communication** - Railtrack and Network Rail did not communicate productively with subcontractors. In the EADS Airbus A380 case, problems of mismatching aircraft sections were kept away from senior managers for six months.
- Excessive Complexity** - The EADS Airbus A380 project involved immense complexity at the level of aircraft design, information technology, procurement, manufacture and assembly, in addition to the need to achieve Franco-German political balance between two chief executives.
- Inappropriate Incentives** - BP's bonus scheme gave little credit for achieving good health and safety standards.
- Information "GLASS CEILING"** - This is pushed by failure of internal audit or risk management teams to report on risks emanating from top levels of management. For instance, warning pointed by internal compliance over Kerviel's trading patterns at Société Générale had no repercussions.

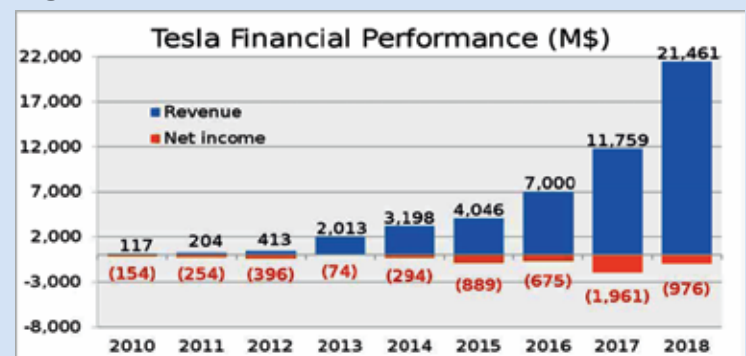
Case No.1

Corporate Misgovernance of Elon Musk, Co-Founder and CEO of Tesla

Corporate Misgovernance of a personality which is sometimes larger than life. **Elon Musk** is Co-founder and CEO of TESLA Motor along with some engineers in 2003, an American company. This company is different and above its class. Nikola Tesla, a designer, designed an electric car in 80s when steam car was in use and hence founders

put Tesla name of the car. For future and continuous conservation of energy, company produces only Electric cars to prove that these cars run better than petrol and diesel operated cars. With one charge, it can run upto 320 km. It is the most popular car among electric cars. The first car came on road in 2008. Its production was 1,20,000 car in 2017 and 3,50,000 in 2018.

Figure 1



Source - https://en.wikipedia.org/wiki/Tesla,_Inc.

Irked by continuous criticism of shortsellers of stock market about performance of the company, on 7th August, 2018, Elon Musk, suddenly surprised shareholders and investors and declared in tweet that he was going to convert Tesla Motor into a private company and he has managed the sufficient fund for the deal. Accordingly, he would purchase sufficient shares from the market @ \$420 around \$72 billion. At that time, price of share was \$ 280 per share. Immediately, it shoot up by 11% for sometime. When asked by Security Exchange Commission (SEC), why he declared this decision in tweeter and also what is the reason of his not promptly filing statutory submission to SEC? It was a corporate governance failure for Tesla Motor. He kept quiet for almost 4 days and published in a blog that he was in negotiation with M.D. of Saudi Arabia Sovereign Fund and other funds. He also said that whatever he declared in social media was in his personal capacity and not on behalf on the company. Further whatever he declared about arrangement of fund was not correct.

Figure 2



As per SEC rule, the concerned company (after such unconventional declaration) need filing disclosure within four working days which was not done. The fact that fund was ready for the deals was not correct as declared. Further, it created restlessness in the concerned stock markets and impacted heavily to the interests of shareholders and investors. Transactions of Tesla in stock market was forcefully closed and share price drastically nosedived. Obviously, it called for severe action from regulator.

Immediately, SEC sent a legal notice to both Elon Musk and Tesla Motor to appear before SEC for securities cheating and unbecoming corporate behaviour which is bad corporate governance. In the trial, SEC settled that Elon Musk who was holding both posts of Chairman and CEO were not competent to head a company because of his unpredictable attitude. Considering the vast contribution of Elon Musk since inception, instead of banning him from holding both the posts, they allowed him to hold post of CEO and removed him from chairmanship of the company. It directed that an independent director to be appointed who will be chairman and Elon Musk can not be chairman for next three years. Further, two independent directors would be appointed to control him and a board committee to be formed to check on his impulsive and erratic behavior regarding voicing opinion which may damage shareholders and investors. Under NO OPTION circumstance, Elon Musk agreed to all clauses of agreements of SEC and resigned as chairman. Had he not agreed all terms, possibly, he would have lost both the position of CEO along with Chairman and a long proceeding would continue. That would have jeopardized the present and future of Tesla Motor since Elon Musk is the backbone of TESLA from inception and main technology and design man. Further, SEC penalized each to Elon Musk and the company with damage of \$20 million totaling \$40 million. After all came to an end, it appears that Elon Musk got a befitting blow from SEC which may compel him to work under supervision of Board.

Lessons for SEBI and Corporates in India

The tale of TESLA tells us how due to swift and stringent action of SEC, protection of shareholders'/investors' were ensured. How also, a larger than life Chairman and CEO of TESLA MOTOR was cut to size and put under custody of chairman and board of directors specifically after additionally appointing one chairman and two independent directors. Board and chairman were armed sufficiently to supervise the activities of temperamental CEO. It was a rude shock for CEO which was very much required.

When people of stature of Ms.Chanda Kochhar and Mr.Rana Kapoor etc. continued economic offences like weak compliances, misgovernances and miscategorisation of NPA jeopardizing shareholder' interest, SEBI is only silent onlooker. Being regulator and custodian of stock market, such attitude of SEBI damages shareholders who invest hard earned money in the stock market. SEC's prompt action in every case of wrongdoing should be a benchmark of surveillance for SEBI. Otherwise the very purpose of formation and existence of SEBI will be defeated.

Case No.2

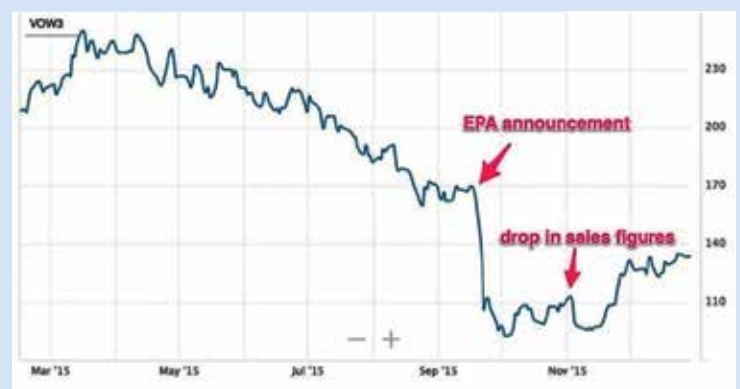
Volkswagen Emissions Scandal

On 18th September 2015, the U.S. Environmental Protection Agency (EPA) detected that in all the models of Volkswagen sold between 2009 till 2015 in US had emission level 40 times higher than the specified EPA standard of US agency. The concerned US EPA issued a notice of violation to German automobile company Volkswagen. EPA mentioned five types of four-cylinder diesels — the Audi A3, Beetle, Golf, Jetta and Passat, all of which have the same engine — in its notice. It also mentioned in the notice that it is the responsibility of Volkswagen to rectify those effected 4,82,000 cars to bring back into emission levels. Notice also mentioned that Volkswagen diluted the Clean Air Act for which penalty per car may be \$37500 per car totaling more than \$18 billion. This was initial estimate. Actual amount may be more. Interesting part is when those cars were tested in US EPA testing Labs, the cars successfully passed the emission test. However, when the same cars were tested beyond the Labs, in outdoor and on roads, they got disqualified as per emission standard.

When exposed by the U.S. Environmental Protection Agency (EPA), Volkswagen revealed the secret. There was a software installed in each car. When cars go inside the Lab, the driver activates particular software. These are special and qualified drivers who drive car only for emission test and know how to drive cars at minimum emission level. The software put in the cars suppresses the emissions level when tested in indoor lab environments and qualify and pass the emission benchmark. When the car comes out of Lab, the software is deactivated. That is why in outdoor and in roads, the emission level is 40 times high compared to emission standard in the indoor Lab. Volkswagen launched an internal investigation and recalled as many as 11 million cars worldwide.

Shares in Volkswagen on the Frankfurt Stock Exchange eventually hit a low of \$US 86.36 (30% Drop in one day), down from a 52 week high of \$US 262.45.

Figure 1 Reaction After Revelation of Volkswagen Cheating Scandal



Source-<https://www.businessinsider.com.au/chart-this-is-what-happened-to-volkswagen-after-the-emissions-scandal-2015-12>

Since 2008, Volkswagen introduced operation of this software in the cars after revelation that in many countries

the Volkswagen new diesel engines in different models could not qualify the environmental test.

Figure 2 Consequences on Other EU Car Manufacturers



In response to the EPA's disclosure, Volkswagen CEO Martin Winterkorn expressed apology to USEPA and subsequently resigned. Seven employees have been charged for being kingpin in this scandal. In January 2017, Volkswagen acknowledged guilty in the accusation of cheating to USEPA. Volkswagen paid fine of \$2.8 Billion, penalty of \$1.5 Billion beside a settlement fee of \$15.3 Billion with US Law Agency. Total comes to \$19.6 Billion. Amountwise, this was the highest in its class of vehicle related settlement in US so far.

Lessons from Volkswagen case

1. Deceiving with quality of product is not viable in the longrun.

After scandal has been exposed, look at likely massive cost, the company had to incur. Fines, litigation, compensation besides recall of cars, cost are in billions. Further, loss of brand value is mammoth.

2. Brand is several times valuable than product.

Brand has to be built over the years based on customers' trust. Customers are very sensitive. They have number of choices of brand. The way Volkswagen impaired its brand in this scandal, it will be difficult to recover. Such

bad image of brand may force a customer to shift its loyalty from VX to Honda/Toyota etc.

3. Environmental issue

Such action of Volkswagen has worsened the already damaged the mother earth. This is criminal act. VX has disregarded the quality of air its customers inhale. This is besides the point of not adhering to vehicle norms.

4. Corporate sustainability is a virtue for all big corporation

Volkswagen, along with other MNCs have Sustainability Report published in Annual Report which calls for maintaining values during conduct of business on long term basis. Publishing coloured pamphlets containing famous Quotes about values is one thing, practising same value in conducting business on long term is separate ball game altogether. Attainment of targets like bottomline, revenues etc. at any cost distances a company from running business with values. Exactly, the same has happened with Volkswagen. However, maintaining values in business has many strategic benefits and should be ruthlessly adhered to.

Reference

1. <https://www.bbc.com/news/business-46298999>
2. <https://www.sec.gov/litigation/complaints/2019/comp24606.pdf>
3. <https://knowledge.wharton.upenn.edu/article/carlos-ghosn-out-at-nissan/>
4. <https://www.allaboutcircuits.com/news/4-things-makers-can-learn-from-the-volkswagen-scandal/>
5. <https://ethicsunwrapped.utexas.edu/wp-content/uploads/2018/07/Volkswagen%E2%80%99s-Emissions-Evasion.pdf>
6. <https://www.techymama.com/story-behind-tesla-electric-vehicles/>
7. <https://hwnews.in/business-finance/business/lesson-india-tesla/59156>

*“Education is one thing
no one can take away
from you.”*

— ELIN NORDEGREN



Can HUF make payment (Gift) to Married Daughter?

Analysis of Section 56(2)(vii) Vs. Section 10(2); Hindu Succession Act; Relevant

CMA Prutha Harshit Shah

Mob.: 98255 66233 • E-mail: prutha19@gmail.com

Hindu Undivided Family ('HUF') has time and again been a controversial and grey area under the provisions of Income tax Act, 1961 ('the Act'). Along with being an excellent tax planning tool, it has also been looped in various controversies involving the ancestral property, the treatment of income on the same, the payments made to members of HUF and vice versa, and the like. Nevertheless, the department has been comparatively lenient in its assessment considering the strong foothold of Hindu Succession Act. After 2005, there has been a ground-breaking amendment in the Hindu succession act, as per which married daughters have been provided a right in the HUF property and to the extent that they can demand a partition and exercise that right. This complicates the intelligent tax planning done by many. Now, people are bent towards reducing the HUF property to avoid future conflicts, that may arise due to the amendment of married daughters having a right in HUF property.

In continuance of this discussion, I would like to present a classic case of contradiction in the sections of the Act and its interpretation by the tribunals in various case laws.

Can a fathers' HUF give gift to married daughter of any sum above rupees fifty thousand without attracting tax liability?

Following issues arise:

1. Whether married daughter is a member of fathers' HUF?

Provisions as per Hindu Succession Act:

After 2005 Amendment in the Hindu Succession Act, 1956, A daughter continues to be a coparcener of her father's family, having all the rights and privileges as of a coparcener, she can demand partition of her father's HUF, property. This means that women now have equal rights in the family property.

2. Provisions as per Income Tax Act (Section 56 & Section 10(2)). There are both sided arguments to this:

A: First Argument is favor of revenue, that it would be treated as income in the hands of the individual and hence, taxable. Please find below the issue in detail :

1. **Section 56(2)(vii)** is the charging section which treats any amount received by an Individual or HUF without consideration, as Income under the Act. Excerpts of the relevant clause is as below:

Where an individual or HUF receives, in any previous year, from any person or persons-

- (a) Any sum of money, without consideration, the aggregate

value of which exceeds fifty thousand rupees, the whole of the aggregate value of the such sum;

Provided further that this clause shall not apply to any sum of money or any property received-

- (a) From any relative; or
- (b) On the occasion of the marriage of the individual; or
- (c) Under a will or by way of inheritance; or
- (d) In contemplation of death of the payer or donor, as the case may be; or
- (e) From any local authority as defined in the Explanation to clause (2) of section 10; or
- (f) From any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in clause (23C) of section 10; or
- (g) From any trust or institution registered under section 12AA [or section 12AB]
- (h) By way of transaction not regarded as transfer under clause (vib) or clause (vid) or clause (vii) of section 47.]

Explanation.- For the purposes of this clause,-

[e) "relative" means,-

- (i) in case of individual-
 - (A) spouse of the individual;
 - (B) brother or sister of the individual;
 - (C) brother or sister of the spouse of the individual;
 - (D) brother or sister of either of the parents of the individual;
 - (E) any lineal ascendant or descendent of the individual;
 - (F) any lineal ascendant or descendent of the spouse of the individual;
 - (G) spouse of the person referred to in items (B) to (F); and

(ii) in case of HUF, any member thereof;]

As per the above extract of the Act, any amount **received without consideration is taxable in the hands of the individual as per bare reading of the Act, in our case HUF is not 'relative' of the Individual, although, Individual (being members of the HUF) is a relative of HUF as per (ii) above.**

Ruling of Case Law in favor of Revenue:

Gyanchand M. Bardia v. ITO [2018]:

The Karta of the HUF manages the affairs of the HUF as

trustee of the HUF and on behalf of other members. When the Hon'ble Parliament brought amendment to the statute declaring gift from member to HUF as tax free, but not vice versa; Because, if such provisions are made, the Karta of HUF may misuse the provisions and gift the corpus of the HUF to himself, as other members of the HUF have no control over managing affairs of the HUF.

The legislature substituted clause (e) to Explanation in Section 56(2)(vii) defining the term of “relative” to be applicable in case of an individual assessee as well as HUF; with retrospective effect from 01.10.2009. The legislature has incorporated clause (ii) therein to deal with an instance of an HUF donee only receiving gifts from its members.

The legislative intent is very clear that an HUF is not to be taken as a donor in case of an individual recipient. Thus, the assessee's plea of having received a valid gift from his HUF was rightly declined and impugned addition was to be upheld.

This means, since Individual(married daughter) is receiving gift from HUF, which is not a relative for the individual, any amount above fifty thousand rupees would be considered as income in the hands of individual and taxable under the head “Income from other sources”.

B: Second argument is in favor of assessee, that HUF can gift a married daughter without attracting tax liability. Points to be noted as under:

1. Section 10(2): Excerpts from the Act,

10. In computing the total income of a previous year of any person, any income falling within any of the following clauses shall not be included—

(2) subject to the provisions of sub-section (2) of section 64, any sum received by an individual as a member of a Hindu undivided family, where such sum has been paid out of the income of the family, or, in the case of any impartible estate, where such sum has been paid out of the income of the estate belonging to the family ;

Hence, any sum paid to the members out of the income earned by the HUF is considered as “Incomes which do not form part of Total Income”

2. Rulings of Case Laws in favor of assessee:

a. ITA No. 773/ CHD/ 2018- Chandigarh bench of the Income-tax Appellate Tribunal (Tribunal) Vs. Sanjay Garg

Tribunal held that the provision of section 56 (2)(vii) of the Act does not apply to a gift given by a HUF to its members, on the premise that a member has pre-existing right in the family properties. Thus, when a member receives any sum from the HUF, during the subsistence of the HUF or on its partition, it cannot be treated as receipt without consideration. The Tribunal also held that even otherwise, the taxpayer was entitled to exemption under section 10(2) of the Act.

b. Vineetkumar Raghavjibhai Bhalodia v. ITO [2011] 12 ITR(T) 616 (Rajkot)

- (i) S. 56(2)(v) exempts gifts from a “relative”. Though the definition of the term “relative” does not specifically include a Hindu Undivided Family, a ‘HUF’ constitutes all persons lineally descended from a common ancestor and includes their mothers, wives or widows and unmarried daughters. As all these persons fall in the definition of “relative”, an HUF is ‘a group of relatives’. As a gift from a “relative” is exempt, a gift from a ‘group of relatives’ is also exempt since the singular will include the plural;
- (ii) The gift was also exempt u/s 10(2) because the two conditions required to be satisfied for relief viz (1) that the assessee is a member of the HUF and (2) that he receives the sum out of the income of such HUF (may be of an earlier Year) were satisfied.
- c. Mr. Biravelli Bhaskar Karimnagar v. ITO [ITA No. 398/HYD/ 2015]
- (i) In our considered view, the “relative” explained in Explanation to s. 56(2)(vi) of the Act includes “relatives” and as the assessee received gift from his “HUF”, which is “a group of relatives”, the gift received by the assessee from the HUF should be interpreted to mean that the gift was received from the “relatives” therefore the same is not taxable under s. 56(2)(vi) of the Act, we hold accordingly.”
- (ii) In view of the above, respectfully following the same, we hold that HUF can be treated as a ‘relative’ under the provisions of section 56(2) so as to exclude the amount received from HUF by the assessee-individual.

From the above case laws citing, it is clear that all rulings have been in favor of assessee that gift received by a member of HUF is not taxable u/s 56(2)(vii) of the Act.

Opinion and Conclusion:

The judgements reaffirm and strengthen the argument of nontaxability of gifts received by an individual from an HUF even though the Act does not specifically speak of the same. There are more rulings in favor of assessee. Although the opinion differs from case to case, it is a calculated risk which can be taken by an assessee (HUF) by gifting an amount not more than its income earned over a period of time, and after executing a gift deed and obtaining consent from all the members of concerned HUF.

WIRC Mobile App

Android version:

<https://play.google.com/store/apps/details?id=wirc.microvistatech.com.wirc>

IOS version:

<https://apps.apple.com/us/app/id1523413767>

Suggestions for improvement in mobile app is welcome.



A note on Nominal & Real Cash-Flows

Vishal Gupta

Registered Valuer

Mob.: 80809 43381 • E-mail: vishal@intelligentgroup.org.in

A problem most people face while dealing with valuations is the adjustment in inflation. Inflation being a volatile number in India, most valuers tend to ignore it. In usual practice we see valuers using nominal interest rates and real cash flows without adjusting for inflation at all. This assumption holds true when prices are very inelastic and inflation is zero. However, most products do not follow this rule.

So before we delve into what is the correct way to value cashflows, let us first understand the culprits in the situation – nominal & real interest rates and nominal & real cash flows.

Nominal interest rates are interest rates quoted by the agency. For example, if the Indian Government is issuing 3.15% T-Bills on 19 Aug 2020, then the nominal rate of interest offered by the Indian Government on those T-Bills is 3.15%. The Real Interest Rate is given by

$$\text{Real Interest Rate} = \text{Nominal Interest Rate} - \text{Inflation}$$

We will get back to inflation in a moment. Regarding cash flows, the basic model remains as

$$\text{Revenue} = \text{Capacity} * \text{Capacity Utilization} * \text{Sale Price}$$

$$\text{Or Revenue} = \text{Past Revenue} * \text{Growth}$$

Without really caring about where this growth is coming from. As long as the growth is consistent with the past growth, we are comfortable with our valuation. However, it is very imperative to know whether the growth is a result of increase in sale prices, or increase in scale of operations, or the more likely scenario – both! If the growth is on account of increase in sale prices only, then it is not a “real” growth but only in nominal terms. However, if we do not consider the growth in sale prices, then it would be unfair to discount the cash flows at nominal interest rates.

The principle that emerges is – **Real Cash-Flows must be discounted at Real Interest Rates and Nominal Cash-Flows must be discounted at Nominal Interest Rates.**

Let's say we have a cash-flow where we're using nominal rates. The discount rate is the same as quoted by the market in terms of nominal rates of risk free rates and market premiums. Whereas the cash-flows are being increased in accordance with inflation year-on-year. If we were to convert the same cash-flow to real rates, we would have to reduce the discount rates by inflation and the increase in cash-flows would be reduced to the extent of inflation. The net value of the cash-flows should remain the same. Which makes sense as there should be no effect of inflation on the Valuation Date. It should only affect future cash-flows which are being valued in the discounting model.

Next we address the elephant in the room. What should be the inflation rate. Take 10 different sources and they will all give you a different rate of inflation. Broadly, there're two major measures of inflation – the Consumer Price Index (CPI) and the Wholesale Price Index (WPI). In the long run, both these rates have displayed similar characteristics. Some might even take the long-term increase in gold-prices to be a measure of inflation. However, all these measures are backward-looking and discounting of cash-flows has to be done on a forward-looking basis. The issue remains unresolved at the moment and the closest estimate often taken is a 4% inflation rate given the RBI's present inflation target.

Even as the issue for the measure of inflation remains unresolved, it is prudent to be aware that the discounting of cash-flows must be consistent with the interest rates taken. Otherwise we remain unaware of our own shortcomings while estimating valuations under the discounted cash-flow approach.

“Education is not preparation for life; education is life itself.”

— JOHN DEWEY



Importance of Proper Allocation, Apportionment and Absorption of Consumable Stores Expenses

CMA Rajesh Kapadia

Mob.: 99090 29382 • E-mail : rajeshanita2007@yahoo.com

A Company is required to incur expenses on Stores & Spares to keep its Plant & Machineries in good condition so that it facilitates smooth running of its Plant & Machinery.

To arrive at reliable Product Cost, it is essential to ensure proper allocation, apportionment and absorption of All Cost Elements.

And Consumable Stores Expenses being an important Cost Element, it is imperative to ensure it proper allocation, apportionment to Respective Cost Centres and thereafter its absorption in Final Product Cost which is exhibited in Annexure I.

This makes it necessary to define Proper Cost Centres.

In Issue Voucher, proper Cost Centre should be mentioned to ensure proper booking of Consumable Stores Expenses.

List of Cost Centres should be provided to All Engineers as well as Stores Department to ensure mentioning of Correct Cost Centre against each Issue Voucher. Sometimes, New Cost Centres are added to meet the Management Reporting Requirements. This Updation should be provided to ALL Concerned.

It may be a good industrial practise to circulate Cost Centrewise Expenses on Consumable Stores to Maintenance Manager regularly (Say Quarterly).

This will help identify booking of expenditure in wrong cost centre.

Maintenance Manager and his staff are adequately equipped to know any wrong booking of Consumable Stores which can be suitably corrected. It may be a good practice to analyse Cost Centrewise Expenses on Consumable Stores every quarter with previous quarter as well as corresponding quarter of previous year.

When a Costing System is established for the 1st time :

- 1) Either in the existing company or
- 2) In New Company then

It would be a better practice to educate the all concerned including the Maintenance people and Stores people about the Structure of Cost Centres and their importance.

This will help and enable the Maintenance and Stores people to use correct cost Centre.

A question may come before the management, how many cost centres company should have. Experience says- neither it should be too many or nor too less. No of Cost Centres should be reasonable to facilitate management needs.

Too many cost centres will confuse the users as some cost centres may be overlapping in nature.

With too less cost centres, it may not be possible to address the management requirement.

Sometimes, same consumable stores may be locally procured as well as imported.

In such cases it is better to have two separate material codes for both local and imported to facilitate to have their consumption separately.

It is always advisable to have Proper Costing System with Properly defined Cost Centres to have proper allocation, apportionment & absorption of Expenses on Consumable Stores.

If the Company does not have Proper Costing System with Properly defined Cost Centres, then it may create Practical Problem as enumerated below :

Under this situation, Company may have GL in Financial Accounting for booking of Consumable Stores without assigning any Cost Centre to each Issue Voucher.

Under this situation, if Management requires either Cost Centrewise Expenses on Consumable Stores or Expenses for Consumable Stores for any given Cost Centre / Cost Centres, then somebody from Finance or Costing will have to sit with Maintenance person to work out / ascertain Expenses for Consumable Stores for required Cost Centres which will be very time consuming.

So it is always advisable to have Proper Costing System with Properly defined Cost Centres.

ANNEXURE I – Cost Centrewise Expenses on Consumable Stores for Company / for Plant 1

| YEAR | 2019-20 (Rs Lacs) | % | Allocation | Apportionment/ Absorption |
|-------------------------------|-------------------|---|--|---|
| COST CENTRES | | | | |
| Manufacturing Cost Centres | | | In Product Cost Sheet it will appear as Consumable Stores Expenses | |
| Manufacturing Plant-1 | | | | |
| Manufacturing Plant-2 | | | | |
| Manufacturing Plant-3 | | | | |
| Utilities Cost Centres | | | | |
| Power Plant | | | Allocated to Respective Utilities | In Product Cost Sheet, it will appear as Cost of Respective Utilities |
| Boiler | | | | |
| DM Water Plant | | | | |
| Filtration Plant | | | | |
| Cooling Water Plant | | | | |
| Chilled Water Plant | | | | |
| Air Compressor | | | | |
| Nitrogen | | | | |
| Other Cost Centres | | | Allocated | In Product Cost Sheet, it will appear as Factory Overheads |
| TOTAL | | | | |

NOTE : VIEWS EXPRESSED ARE PERSONAL VIEWS OF THE AUTHOR

Minutes of the 61st Annual General Meeting of the Western India Regional Council of The Institute of Cost Accountants of India held on Wednesday, 19th August 2020 at 3 p.m. through Video Conferencing Mode

CMA Neeraj D. Joshi, Chairman, ICAI WIRC conducted the proceedings of the AGM. He welcomed all the members to the meeting. CMA Neeraj Joshi Chaired the AGM. After establishing Quorum for the meeting he called the meeting in order. He expressed that the COVID 19 situation has posed many challenges but at the same time has also pushed the entire Institute to up its IT presence. He further expressed that this is the First time in the history of WIRC that AGM is conducted using Online Mode. He thanked all the staff members of WIRC for their support and also thanked all the members for their participation in the first ever virtual AGM of WIRC of ICAI.

CMA Neeraj Joshi, Chairman informed the members that WIRC has not received any Queries on the Annual Report and WIRC has also not received any Notice of Proposal (under Regulation 139) within the prescribed time limit as per the Notice of the AGM. He then proceeded with the Agenda of the meeting.

Agenda 1 : To receive the Western India Regional Council's Sixty First Annual Report.

CMA Neeraj Joshi read the resolution in respect of the Agenda Item No. 1 -

“RESOLVED THAT the Sixty First Annual Report of the Western India Regional Constituency of The Institute of Cost Accountants of India for the year 1st April, 2019 to 31st March, 2020, be and is hereby received & approved”.

CMA Ashish P Thatte (M. No. : 27543) Proposed the Resolution. CMA Narhar K. Nimkar (M. No. : 6493) Seconded the Resolution.

The resolution & the Agenda Item No. 1 were passed by majority by voice vote.

Agenda 2 : To consider and adopt the Accounts of the Western India Regional Council for the year ended 31st March 2020, together with the Auditor's Report thereon.

CMA Neeraj Joshi read the resolution in respect of the Agenda Item No. 2 -

“RESOLVED THAT the Audited Income & Expenditure Account of the Western India Regional Constituency of The Institute of Cost Accountants of India for the year ended 31st March, 2020, and the Balance Sheet as at the date, together with the Statutory Auditor's Report thereon, be and are hereby adopted.”

CMA Nanty N. Shah (M. No. : 31497) Proposed the Resolution. CMA Vijay P. Joshi (M. No. : 22286) Seconded the Resolution.

The resolution & the Agenda Item No. 2 were passed by majority by voice vote.

Agenda 3 : To appoint Auditors for the year 2020-2021 and fix their remuneration.

CMA Neeraj Joshi read the resolution in respect of the Agenda Item No. 3 -

“RESOLVED THAT Mr. Vikas M. Vishwasrao, CHARTERED ACCOUNTANTS, BE AND ARE HEREBY APPOINTED AS auditors to audit Accounts of the year 2020-21, at a remuneration of Rs,60,000/- per annum (plus applicable GST) plus a lump-sum out of pocket expenses of Rs,5000/-.”

CMA Bijal A. Panchal (M. No. : 34520) Proposed the Resolution. CMA Nagesh L. Bhagane (M. No. : 29569) Seconded the Resolution.

The resolution & the Agenda Item No. 2 were passed by majority by voice vote.

Agenda 4 : To transact any other business as may be brought before the meeting with the permission of the Chair.

CMA Neeraj Joshi, Chairman informed that there has been no request for Any Other Matter and such he informed that the agenda is concluded.

Since there were no more agenda items, CMA Neeraj Joshi, Chairman declared the meeting to be officially concluded and closed the AGM officially. 71 members attended the AGM.

CMA Neeraj Joshi, Chairman then informed the members that since 2 of the Central Council Members are attending the AGM, it is a good opportunity to have an informal discussion and listen from them and requested both the Central Council Members, CMA Ashwin Dalwadi & CMA (Dr) Ashish Thatte to address the members. CMA Ashwin Dalwadi sir & CMA (Dr) Ashish Thatte sir, informed members about the initiatives of various Committees at the central level as well as the updates from the Central Council. CMA Neeraj Joshi, Chairman then thanked both the Central Council Members for their information sharing. He then explained in brief the activities of WIRC over the year and specifically during the Lockdown due to COVID19 pandemic. He thanked the entire team of WIR Council members, Faculty & Staff for their full cooperation during the year. He then concluded the unofficial discussion by thanking all the members and wishing them for their good health and safety.

CHAPTER NEWS

NAGPUR

Office Bearers for the year 2020-21

| | | |
|---------------------|---|-----------------------|
| CMA Anil B. Verma | – | <i>Chairman</i> |
| CMA D P Singh | – | <i>Vice Chairman</i> |
| CMA V V S Murty | – | <i>Hon. Secretary</i> |
| CMA Sameer M. Joshi | – | <i>Treasurer</i> |

NAVI MUMBAI

Office Bearers for the year 2020-21

| | | |
|-----------------------|---|-----------------------|
| CMA Sirish V. Mohite | – | <i>Chairman</i> |
| CMA Vaidyanathan Iyer | – | <i>Vice Chairman</i> |
| CMA Ajay Mohan | – | <i>Hon. Secretary</i> |
| CMA Sushant J. Ghadge | – | <i>Treasurer</i> |

CEP on Prospects of Registered Valuer for CMA

Chapter conducted a Webinar on “Prospects of Registered Valuer for CMA” on August 16, 2020 via Google Meet app. The speaker for this event was CMA Harshad Deshpande, Registered Valuer & Insolvency Professional. CMA Sirish Mohite, Chairman of the Chapter, introduced the speaker and the importance of the topic in today’s professional world, to the audience and the programme commenced with the speaker elaborating on the concept of Valuation in India and across the globe.

The speaker examined the concept of Valuation wherein Value denotes the value of the underlying assets as on a particular date & also discussed the various points of the Draft Valuer Bill 2020. The speaker then motivated the students & professionals to pursue valuation as a career option by interpreting the examination requirements, syllabus, scope, methods of valuation – Asset approach, Income approach & Market approach etc.

A large number of professionals & students participated in the programme. The lucid presentation & the interactive workshop came to an end with the speaker being felicitated by CMA Vivek Bhalerao, PD Committee Chairman of the Chapter and the vote of thanks being proposed by CMA L. Prakash, Past Chairman of the Chapter.

Oral Coaching Inauguration function held on 16th August 2020

Chapter conducted the Oral Coaching inauguration function Webinar on August 16, 2020 via Google Meet app. The Chief Guest for this event was Shri Sanjay Chaturvedi, Head HR, Valvoline Cummins Pvt Ltd and the Guests of Honour were CMA Rajendra Kumar Gupta, Finance Head, Cotton Corporation of India and Ms Shubhada Nayak, Principal, KB Patil College Vashi. The Oral Coaching Classes will commence from 17th August 2020 for Foundation, Intermediate and Final for December 2020 exams and will be conducted online due to Covid19 regulations.

The programme commenced with Chairman CMA Sirish Mohite introducing the Chief Guest and welcoming him

to the function. CMA Vaidyanathan Iyer Vice Chairman and CMA Ajay Mohan Secretary welcomed the dignitaries to the program and introduced the Guests of Honour. The lighting of the lamp was conducted online at the hands of the dignitaries amidst the soulful rendering of the Institute Anthem which set the vibrant mood for the rest of the function.

The Guests of Honour congratulated Navi Mumbai Chapter in organizing Online Classes for the benefit of the students during the Covid19 pandemic situation and lauded the efforts of the faculties, managing committee members and staff.

The Chief Guest then gave a pep talk to the students on the roles of future CMA’s and explained that India will soon celebrate the 75th anniversary of its independence and our country targets to achieve a GDP of more than 10%. Cost competitiveness and Operational excellence right from the grassroots level to the global level under the Make in India initiative will help us achieve this target. The CMA plays a prominent role in achieving Cost competitiveness with a plethora of tools like Balanced Scorecard, Lean Management, Activity based Management etc and acts as an accelerator in nation building with the implementation of cost controlling techniques and effective strategic management.

The Guest of Honour Principal of KB Patil College Ms Shubhada Nayak gave a motivational speech to the students and urged for an all-round development of personality and to be thoroughly genuine.

The Guest of Honour CMA Rajendra Gupta highlighted to the students that this CMA Course helps the students to take up function in finance, costing, accounts and administration.

CMA B.N. Sapkal congratulated the Chapter students who passed Foundation Exam & enrolled for Intermediate in the upcoming batch. He wished them all success. He cited practical examples of various opportunities available for CMA’s in different sectors including IT, AI Data Analytics and stressed on upgrading their existing skills to achieve success.

CMA L. Prakash, Immediate Past Chairman welcomed the students and mentioned that CMA course is one of the best professional courses and the role of CMA is growing rapidly in this fast-paced world. He then proposed the vote of thanks.

PUNE

1) Independence Day - Flag hoisting ceremony

Chapter celebrated Independence Day by Flag hoisting ceremony on Saturday, 15th August 2020 at ICAI Pune Chapter, CMA Bhawan premises.

CMA Neeraj Joshi, CCM & Chairman WIRC, CMA Sujata Budhkar-Chairperson, Pune Chapter, CMA Chaitanya

Mohrir-RCM-WIRC, CMA Smita Kulkarni, Secretary, Pune Chapter, CMA Prashant Vaze-Managing Committee Member, Pune Chapter, CMA Meena Vaidya, Past Chairperson, Pune Chapter, CMA Dr. D. V. Joshi, Past President-ICAI, Members & Staff were present for the ceremony. As per HO guidelines & in view of spread of the Covid-19 pandemic Chapter appealed to members & Students to join the Independence Day Flag hoisting programme through online video conferencing tool. Large no of members & Students joined the ceremony.

Inauguration of Oral Coaching lectures

Due to this pandemic condition of COVID-19, Chapter started Oral Coaching through Online video conferencing tool from Monday, 17th August 2020. On this occasion online Inaugural session organised by Pune Chapter. CMA Neeraj Joshi-CCM & Chairman WIRC, CMA Chaitanya Mohrir, RCM-WIRC, CMA Abhay Deodhar-Vice Chairman, CMA Prasad Joshi-Managing Committee Member & CMA Rahul Chincholkar-Chairman Students Co-ordination Committee, ICAI-Pune Chapter addressed & gave important tips to Foundation, Intermediate & Final Students regarding how to achieve success in CMA course.

Webinar on ‘Recent changes & burning issues in GST’

Chapter arranged Webinar for members on 29th August 2020 on “Recent Changes & burning issues in GST”. Speaker for the session was CMA Rahul Chincholkar (Practicing Cost Accountant). Lecture was very Informative and fruitful for participants in current situation. Very lucid lecture given by Speaker. CMA Shrikant Ippalpalli welcomed to the Speaker and participants. CMA Abhay Deodhar, Vice Chairman ICAI Pune Chapter expressed vote of thanks.

SURAT - SOUTH GUJARAT

CEP on “Opportunities in Valuation For CMAs”

Chapter organized a Webinar on “Opportunities in Valuation for CMAs” on 2nd August 2020 through Google Meet. CMA Bharat Savani, Chairman, CMA Nanty Shah-Vice-Chairman presented the formal welcome address to all the participants. CMA Manubhai Desai, Past Chairman of WIRC & Chapter graced the occasion with briefing members and showering them with blessings and good luck. CMA Pankaj Kannaujiya, Secretary introduced speaker by briefing his profile & achievements. CMA Ram Mohan Bhawe, the founder Chairman of Surat South Gujarat Chapter and IFRS expert was the speaker. He guided all the participants about the opportunities that CMAs have in Valuation as a Career. At the end of the session the speaker answered the queries of the participants. About 72 members participated in the event CMA Keval Shah, Treasurer of the Chapter presented formal vote of thanks.

Felicitate of President (incharge) AT THE SGCCI

CMA Bharat Savani, Chairman and CMA Nanty Shah, Vice-Chairman along with the member of the managing committee visited the Southern Gujarat Chamber of Commerce & Industry (SGCCI) on 8th August 2020 to

felicitate new President. CMA Kishor Vaghela, CMA Mahesh Bhalala accompanied them. The Chairman on behalf of Surat South Gujarat Chapter felicitated & congratulated to the new president(in-charge) Shri Dineshbhai Navadiya and discussed on professional developments.

74th Independence Day Celebration

By taking all necessary safety precautions & following the Government & HQ guidelines, Chapter celebrated 74th Independence Day at the Chapter’s campus. CMA Bharat Savani, (Chairman), CMA Brijesh Mali (Immediate Past Chairman), CMA Kishor Waghela, CMA Mahesh Bhalala (MC Members) and Other Members & students joined the celebration. CMA Bharat Savani hoisted our National Flag and addressed to the students and members & staff on the occasion of 74th Independence Day. The Chapter office was suitably decorated according to the theme of Independence Day.

Social Awareness Program on Female Health

Chapter organized a social awareness Program on “Precautions and Preventions Related to Female Health at Various Stages of Life” on 29th Aug 2020 through the google meet. The Chief Guest of the program was Smt. Darshana Jardosh, MP, Lok Sabha, and the Speaker was Dr. Namrata Viradiya, M.B.D.G.O. Gynecologist & Obstetrician.

The Chairman, CMA Bharat Savani presented a welcome address and gave introduction of the Chief Guest to the members. Smt. Darshana Madam highlighted the importance of female health in her speech and added why it is important for overall development and government plans like schemes to balance the female birth ratio, schemes for female education and health. CMA Bharat Savani presented formal Vote of thanks to the Chief Guest. Ms. Kshama Pandey- Student member of the managing committee introduced the speaker to the audience. Dr. Namrata commenced the session and spoke about every aspect related to female health and answered several questions from the members. Around 55 members joined the program including female students.

CEP on “Extension in GST, Income Tax, TDS & Corporate Law Compliances Due to Covid.

Chapter organized a webinar on “Extension in GST, Income Tax, TDS & Corporate Law Compliances due to COVID 19” on 30th Aug 2020 through google meet. CMA Bharat Savani, Chairman and CMA Nanty Shah, Vice Chairman presented formal welcome address to all the participants. CMA Bhanwarlal Gurjar Vice Chairman introduced the speaker to the participants. CMA Deepali Lakdawala (Practicing Cost Accountant) was the speaker. She spoke about how professions are being affected due to COVID 19 and the extensions made by the government to file the returns for TDS, Income Tax, GST and Corporate Law. At the end of the session the speaker answered the queries of the participants. About 50 members joined the programs. CMA Keval Shah, Treasurer presented formal vote of thanks.

Theme for Coming Months

Details of Themes of coming months:

| Month | Theme |
|----------|-----------------------|
| October | Direct Tax |
| November | Valuation |
| December | Insolvency Profession |

Theme of October 2020 is Direct Tax. Editorial board invitees' articles/papers on Direct Tax for the WIRC Bulletin for the month of Oct. 2020. Sub theme of Direct Tax is as below:

Sub Theme:

- **Computation of Income**
- **TDS & TCS**
- **Assessment Procedure**
- **Faceless Assessment**
- **Tax Audit**
- **Stock valuation**
- **Income Computation and Disclosure Standards (ICDS)**
- **Role of CMA under Direct Tax**

Regular articles/papers on other professional matter are also going to be published in WIRC Bulletin apart from articles/papers on respective theme. Editorial board also invitees' articles/papers on other professional matters.

Kindly send your articles on or before 5th October 2020 by email to WIRC: wirc.admin@icmai.in

Minimum Criteria for Selection of Article/Paper for WIRC Bulletin

1. Type of Article: Related to theme of the month or any other professional matter.
2. Font: Arial/ Time New Roman/Calibri
3. Font Size: 11
4. Minimum length of the Article: 1000 Words (Other than graphs/tables/figure/pictures)

Pls. note the final decision to consider Article/Paper is left with Chairman – Editorial Board.

Printed & Published by Ashishkumar Sureshchandra Bhavsar on behalf of the Western India Regional Council of the Institute of Cost Accountants of India, Printed at M/s. Surekha Press, A 20 Shalimar Industrial Estate, Matunga, Mumbai 400 019. Published at Western India Regional Council of the Institute of Cost Accountants of India, Rohit Chambers, 4th Floor, Janmabhoomi Marg, Mumbai 400 001. Editor: Ashishkumar Sureshchandra Bhavsar.

Disclaimer

1. WIRC does not take responsibility for returning unsolicited publication material. Unsolicited articles and transparencies are sent in at the owner's risk and the publisher accepts no liability for loss or damage.
2. The views expressed by the authors are personal and do not necessarily represent the views of the WIRC and therefore should not be attributed to it.
3. WIRC is not in any way responsible for the result of any action taken on the basis of the articles and/or advertisements published in the bulletin. The material in this publication may not be reproduced, whether in part or in whole, without the consent of the Editor, WIRC.