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The Institute of Chartered Accountants of India
(Set up by an act of Parliament)

# The Chartered Accountant STUDENT

Your monthly guide to CA news, information and events

## SPECIAL ISSUE ON

# FINANCIAL MANAGEMENT

ICAI President, CA. Nilesh S. Vikamsey inaugurates the New Reading Room at Aurangabad Branch of WIRC of ICAI. Central Council Members, CA. Prafulla Chajjed, CA. Anil Bhandari, Vice Chairman Board of Studies, CA. Mangesh Kinare, Aurangabad Branch Chairman, CA. Alkesh Rawka, WICASA Chairman, CA. Rohan Achalia, WIRC Vice Chairman, CA. Sarvesh Joshi also seen.


**Pilot Project on Virtual Management and Communication Skills Course:** Chairman, Board of Studies, CA. Atul K. Gupta, Vice-Chairman, CA. Mangesh Kinare, CA. Dinesh Bahl (Faculty) and the Director, Board of Studies, CA. Vandana D. Nagpal at the launching of the Project in New Delhi.


**Pilot Project on Virtual Management and Communication Skills Course:** Director, Board of Studies, CA. Vandana D. Nagpal along with Dr. Mitali Pathak, Assistant Secretary, Board of Studies, presenting a memento to CA. Ajay Bahl (Faculty).

**Faculty Development Programme on AICITSS (Adv. IT) Course:** Board of Studies Vice-Chairman, CA. Mangesh Kinare interacting with the Faculty members at ITT centre, RVG, Andheri West, Mumbai.

Faculty Development Programme on AICITSS (Adv. IT) Course: Immediate Past President, ICAI, CA. M. Devaraja Reddy with the Faculty and Officials at the Centre of Excellence, Hyderabad.

**My Dear Students,**

As the year 2017 draws to an end, it is time to introspect, to take stock of your achievements as well as what still remains to be achieved in your ***to do*** list. Make a list of your achievements and the attributes & events leading to such achievements, and the outcomes. As you reflect upon your activities/events in the last 11 months, you would realize that positive outcomes are a result of good guidance, meticulous planning and impeccable execution of your action plan. Any activity, big or small, important or mundane, needs clarity of thought, sincere and timely efforts, attention to details and good intent to yield desirable results.

For all those who have just written their November 2017 exams, I extend my heartiest good wishes. It is the period when you can to relax to de-stress your mind and provide the much-needed vigor and vitality to constructively think and plan ahead for your career and professional pursuits. Remember, ***"There is virtue in work and there is virtue in rest. Use both and overlook neither."*** You can seek guidance from your Principal, your mentor regarding your professional aspirations, technical/skill training and preparation for better career prospects. Those of you who are yet to complete the training programs viz. ICITSS (ITT and Orientation Programme) and AICITSS (Advanced ITT and MCS) can seek/register for the said batches.

## Assess your Performance

Amidst relaxation, delayed celebrations and festivities, you must make time to self assess your performance in the recent examination. Identify your shortcomings and problem areas. This exercise gives you a critical insight helping you to **re-calibrate** your effort and **re-align** your preparation for the next examination. It helps you to **re-design** your preparation strategy for the next level/exam based on your performance in the recent exam to ensure that you do not repeat the mistakes.

## Update/Enhance your Knowledge

This is the right time to update your knowledge beyond curricula. You should read at least one national and business daily to update yourself about the prevailing political, economic and business environment. Gradually you would be able to co-relate your theoretical learnings with regulatory changes and their impact on economy. With GST having been implemented recently, business magazines and newspapers reporting the challenges and key implementation issues, you must try to keep yourself abreast with the current developments in the matter. The current world order defining the world economy is rapidly changing, thanks to technology and other developments, exhorting big industrial conglomerates and multi-national companies to re-examine their strategies giving rise to several mergers and acquisitions in the larger interests of the companies. Studying and analyzing such events and developments affecting the economy, industry and profession is particularly important to determine thrust areas where you can develop and enhance your knowledge to chart a comprehensive trajectory for a fulfilling career in the long run. Remember - ***An investment in Knowledge pays the best interest. Knowledge is the key that unlocks the door to opportunities.*** So become a true knowledge seeker.

## BOS: Your guide to the future

Board of Studies is organizing Six Days Course on GST and Ind AS through a combination of Webcasts from Head Office and physical classes at Regional Councils and Branch(es) with an objective to introduce the new tax regime GST and Ind AS to enable our students to comprehend the essential concepts and intricacies.

The refresher course will not only enhance your knowledge but also your career prospects/employability. I am sure that you shall register in large numbers and make the most of this learning opportunity. Kindly note that you have to register online. The detailed schedule is available at the link: https://resource.cdn.icai.org/47460bos37242.pdf

As students, you must strive to learn new skills and improve the existing skills to gradually inch towards your goal. Prepare yourself to accept challenges as they help you to become wiser, smarter and more mature. Challenges are stepping-stones that exhort you to devise your own mechanism to tackle problems/difficult situations, harnessing your strengths thus unleashing your hidden potential and helping you to explore new pathways to learning. In words of Emerson, ***"Every wall is a door".*** Every challenge is a hidden opportunity beckoning you. Never underestimate yourself. Remember- you are unique, endowed with immense inherent potential. You simply need to realize and harness your hidden potential to achieve success in all spheres of life. As Zig Ziglar puts it, ***"It's not what you've got; it's what you use that makes a difference".***

I extend my heartiest best wishes for a peaceful, warm and wonderful Christmas!

N. S. Vikamsey

**CA. NILESH S. VIKAMSEY**
**PRESIDENT**
**ICAI, NEW DELHI**



*Education is both a tool of social justice as well as a fundamental driver of economic development - Kevin Rudd*

# VICE PRESIDENT'S COMMUNICATION

**Dear Students,**

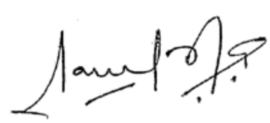
It is my great pleasure to communicate with you as all of you are pumped up with energy to celebrate the biggest festival of peace and joy. I extend my best wishes to all of you for a wonderful Christmas. I am quite sure that you would never like to miss even a single moment of this joyous occasion as you have just written your November 2017 Examinations and are in a mood of relaxing a bit. I am sure that you must have attempted your respective papers in a comprehensive manner. Remember to review your performance and identify the areas where you can improve your performance for next examinations. Have faith in your efforts and do not feel complacent about it.

I am very happy to inform you that Goa & Nagpur of the Western India Regional Council and Chennai of the Southern India Regional Council are organizing CA students Conferences during this month. The Common theme of these conventions **"Nurturing Values & Integrity- Attaining Excellence in Professional Pursuits"** appears to be very relevant in the context of today's national and the global scenario. We have to explore continuously varied areas of knowledge and meet the challenges ahead on a triumphant note. I have no doubt that the organization of these conventions will be intellectually stimulating and worth participating for you. It will certainly be an excellent opportunity to interact with the keynote speakers, subject experts, senior accounting professionals and other students participating from far-flung areas of the nation. I advise you to take a pro-active part in this knowledge sharing activity.

As you know the popularity of the accounting profession is growing along with a paradigm shift in our economy. To face the diverse challenges with confidence, you must hone your skills in the emerging areas and mould your personality in a holistic manner. Being the 2nd largest accounting body in the world, the ICAI set global standards for the profession by promoting integrative thought, responsible action and entrepreneurial spirit of innovation in business and society. Our students learn to think critically, make decisions responsibly and act flexibly. With these skills and integrative mind-set, our students will be able to assume a lasting and sustainable position of responsibility in society. I must congratulate our Board of Studies for taking a lead role to improve the managerial, presentation, communication and soft skills of the students. The Residential Programs on Professional Skills & Development have given excellent value addition to the students. Your active participation will encourage us further to hold similar and better programs on a continuous basis.

Our Institute in all its endeavors ensures to provide you an edge over other professionals for measuring new heights of success. A potential chartered accountant gets advantage over his/her professional competitors. Our esteemed profession has created very high standards of accounting and proved to be very effective in helping businesses. I expect that you should also remember that our profession is all about rich values so uphold these values and bring glory to our fascinating profession.

Wishing you all the best



**CA. NAVEEN N. D. GUPTA**
**VICE PRESIDENT, ICAI, NEW DELHI**



*An organisation's ability to learn, and translate the learning into action rapidly, is the ultimate competitive advantage- Kevin Rudd*

Dear Students,

The Calendar Year 2017 is drawing to an end, left with only a couple of weeks to look back and analyze what we had planned and what we have achieved so far. This issue of the journal would reach when all those of you who appeared for the November 2017 examinations would be in a more relaxed state of mind post examination. We would like to convey our best wishes to all of you for success in the exams. At the same time as a matter of abundant caution, students who feel they have not performed well or have not been able to give their best should stay in touch with their studies. It is not mere luck which is a determining factor, but your efforts, perseverance, hard work and discipline in life will set your destiny. You should not look for short-cuts and work for the success. Somebody once quoted that ***the only place where success comes before work is a dictionary.***

## Practical Training: Take it seriously

Your course and examination pattern; especially in new scheme, is designed in such manner that practical training plays a pivotal role in developing competence apart from clearing examination. Practical training exposes you to diverse practical situations and enables you to acquire skills and expertise the CA profession demands. It is this unique method of full-time training on the job through which a student is gradually introduced to the contours of the professional world. It provides a platform to interact with clients and make informed professional decisions at a very young age; it helps the students apply practically the very same concepts that will appear in the examination. Most importantly, article training equips you to stand on your feet and to remain cool under pressure- attributes which are crucial while writing the examination. In the new scheme when you will be appearing in elective paper with open book and case study based paper, it will be practical training only, that will enable you to get success.

## Mentorship Program for CA Students

Ever since its inception, the ICAI has remained as a trend setter in various student friendly initiatives. We are happy to share with you a new beginning wherein Board of Studies in recent meeting decided to introduce a Mentorship Programme to help the students to progress and specialise in their professional endeavour. Under the program, certain Members of the Institute will act as "Mentor" to CA Students undergoing article training. Mentorship will help in assessing the value addition in Practical Training by output based approach.

## Network of more than 150 Reading Room for Students

Dear Students, very soon we are launching the online application wherein you can see and block your seat across India in over 150 reading rooms operated by Branches, Regional Councils and Board of Studies. It will help students while visiting outstation of audit assignment to make effective use of precious time in evening after the office working hours wherein they can simply see seats available in nearby reading room and block their seat on a very nominal fee.

## Specialised training program with participation certificate in GST and Ind-AS

Someone rightly said, *"if you want to become powerful in life, educate yourself".* To enrich knowledge of our students in specialised area, your Board of Studies is starting a new initiative wherein six days special courses will be organised along with a online test. Once you participate in virtual and live classes for six days and qualify test, there will be a participation certificate which will be awarded as recognition to students. First of that lot we are organising in Goods and Services Tax (GST) and Ind-AS starting from December $10^{th}$. Our request will be to participate in large number and make use of these endeavours. These training programme apart from supporting examination, even will assist you in rendering services post qualification, whether for Practice or in employment.

## Survey of ICAI students

The Board of Studies has also decided to conduct a survey among the CA students to understand the profile, needs and expectations of the students. A deeper knowledge about the students will help the Board of Studies to create appropriate strategies for imparting education and training. The survey will also help the Board to customize its activities and take a big leap forward to help the students.

Wish you all a happy and wonderful Christmas.

**CA. ATUL K GUPTA**

**CHAIRMAN, BOARD OF STUDIES, ICAI**



*Financial literacy is just as important in life as the other basics. - John W. Rogers, Jr.*

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## INSIDE



**SWACHH BHARAT - A STEP TOWARDS CLEANLINESS**


**ANNUAL SUBSCRIPTION RATES**

| CA Students | Members and Others | Overseas |
|---|---|---|
| ₹200 | ₹500 | US $ 100 |

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# Financial Management-A Capsule for Quick Revision

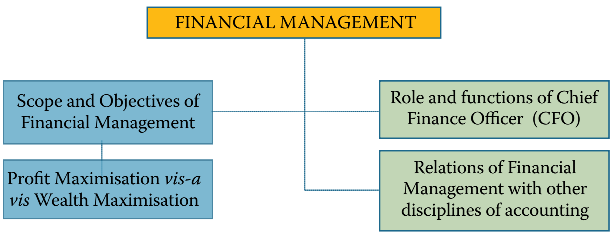
To sustain and grow their financial standing, organisations across the world essentially require managers who are competent in various domains of finance. One of the fundamental domains of finance, financial management deals with the functions relating to how much and which assets are to be acquired, how to raise capital to acquire the assets and what is to be done to maximize the shareholder's wealth. Financial management comprises the processes of planning and controlling subsystems of funds.

A study in financial management will help the students to understand the functions of financial managers, providing with an overview of broad issues and problems that financial managers face in various commercial domains of our economy. This subject introduce various concepts and theories relating to finance, which are fundamental to the methodologies and proficiencies offered as aids to understand, identify and solve the problems of financial managers. Study of financial management will help the Chartered Accountancy students to develop an acumen, so as to grow competencies in financing decision, investment decision, dividend decision and working capital management. Keeping in view the importance of the Subject, Board of Studies (BoS) has decided to bring a capsule on Financial Management.

In the beginning of each topic, a chapter overview has been provided to present a holistic viewpoint on the topic's coverage. This capsule, though, facilitates the students in undergoing quick revision, under no circumstances; such revisions can substitute the detailed study of the material provided by the BoS.

## SCOPE AND OBJECTIVES OF FINANCIAL MANAGEMENT

### Chapter Overview

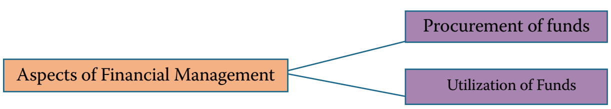



### Meaning of Financial Management

Financial management comprises the forecasting, planning, organizing, directing, co-ordinating and controlling of all activities relating to acquisition and application of the financial resources of an undertaking in keeping with its financial objective.

### Two Basic Aspects of Financial Management

There are two basic aspects of financial management viz., procurement of funds and an effective use of these funds to achieve business objectives.

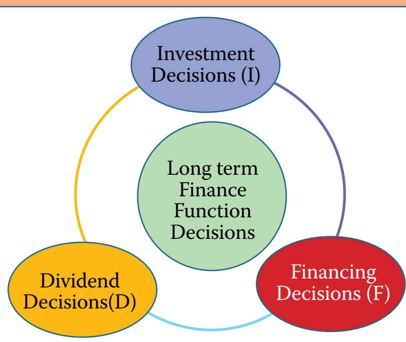



### Finance functions/ finance decision

Value of a firm will depend on various finance functions/decisions. It can be expressed as

V = f (I,F,D).

The finance functions are divided into long term and short term functions/decisions



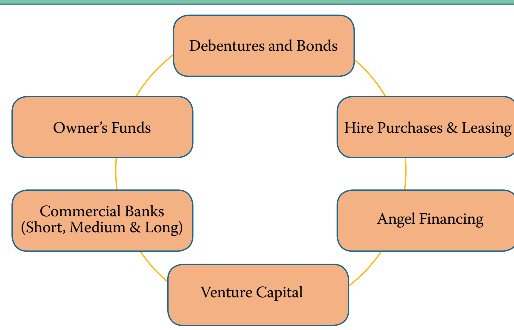

| Short- term Finance Decisions/Function | Working capital Management (WCM) |
|---|---|

### Scope of Financial Management:

- Determination of size of the enterprise and determination of rate of growth.
- Determining the composition of assets of the enterprise.
- Determining the mix of enterprise's financing i.e., consideration of level of debt to equity, etc. and short term functions/decisions
- Analysis, planning and control of financial affairs of the enterprise.

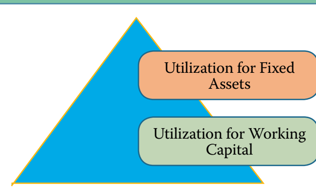
### Procurement of Funds:

Since funds can be obtained from different sources, therefore their procurement is always considered as a complex problem by business concerns. Some of the sources for funds for a business enterprise are:




### Effective Utilisation of Funds:

The Finance Manager has to point out situations where the funds are being kept idle or where proper use of funds is not being made. All the funds are procured at a certain cost and after entailing a certain amount of risk.



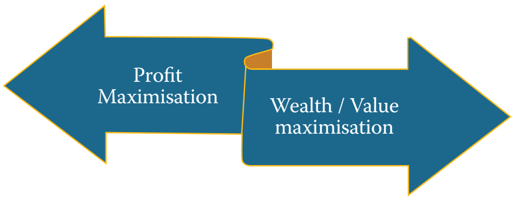
## Evolution of Financial Management

The evolution of financial management is divided into three phases. Financial Management evolved as a separate field of study at the beginning of the century. The three stages of its evolution are

Stages of Evolution of Financial Management

Traditional Phase | Transitional Phase | Modern Phase

## Objectives of Financial Management




## How do we measure the value/wealth of a firm?

Stockholders hire managers to run their firms for them......

Managers set aside their interest and maximise stock prices...

Stockholders wealth is maximised...

Firm value is maximised....

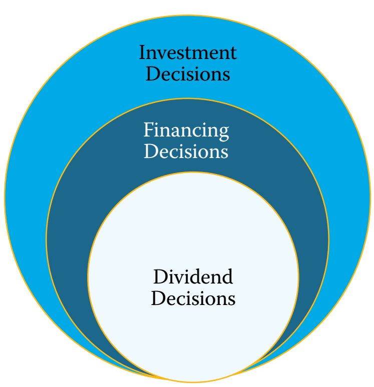
Societal wealth is maximised...

Value of a firm (V) = Number of Shares (N) × Market price of shares (MP)

Or

V = Value of equity ($V_e$) + Value of debt ($V_d$)

## Three Important Decisions for Achievement of Wealth Maximisation




## Conflict between Profit versus Value maximisation Principle:

As a normal tendency, the management may pursue its own personal goals (profit maximization). But in an organization where there is a significant outside participation (shareholding, lenders etc.), the management may not be able to exclusively pursue its personal goals due to the constant supervision of the various stakeholders of the company-employees, creditors, customers, government, etc.

The below table highlights some of the advantages and disadvantages of both profit maximisation and wealth maximization goals

| Goal | Objective | Advantages | Disadvantages |
|---|---|---|---|
| **Profit Maximization** | Large amount of profits | (i) Easy to calculate profits<br>(ii) Easy to determine the link between financial decisions and profits. | (i) Emphasizes the short term gains<br>(ii) Ignores risk or uncertainty<br>(iii)Ignores the timing of returns<br>(iv)Requires immediate resources. |
| **Shareholders Wealth Maximisation** | Highest market value of shares | (i) Emphasizes the long term gains<br>(ii) Recognises risk or uncertainty<br>(iii) Recognises the timing of returns<br>(iv) Considers shareholders' return. | (i) Offers no clear relationship between financial decisions and share price.<br>(ii) Can lead to management anxiety and frustration. |

## Role of Finance executive in today's World vis-a-vis in the past

Today, the role of chief financial officer, or CFO, is no longer confined to accounting, financial reporting and risk management. Some of the key differences that highlight the changing role of a CFO are as follows

| What a CFO used to do? | What a CFO now does? |
|---|---|
| **Budgeting** | Budgeting |
| **Forecasting** | Forecasting |
| **Accounting** | Managing M & As |
| **Treasury (cash management)** | Profitability analysis (for example, by customer or product) |
| **Preparing internal financial reports for management.** | Pricing analysis |
| **Preparing quarterly, annual filings for investors.** | Decisions about outsourcing |
| **Tax filing** | Overseeing the IT function. |
| **Tracking accounts payable and accounts receivable.** | Overseeing the HR function. |
| **Travel and entertainment expense management.** | Strategic planning (sometimes overseeing this function). |
| | Regulatory compliance. |
| | Risk management. |

## Relationship of financial management with related disciplines:

Financial management is not a totally independent area. It draws heavily on related disciplines and areas of study namely economics, accounting, production, marketing and quantitative methods. Even though these disciplines are inter-related, there are key differences among them.

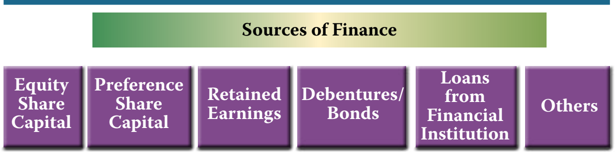
| | | |
|---|---|---|
| **Financial Management and Accounting:** | **Treatment of Funds** | In accounting, the measurement of funds is based on the accrual principle. |
| | | The treatment of funds in financial management is based on cash flows. |
| | **Decision – making** | Chief focus of an accountant is to collect data and present the data. |
| | | The financial manager's primary responsibility relates to financial planning, controlling and decision making. |

## Financial Management and Other Related Disciplines:

Financial management also draws on other related disciplines such as marketing, production and quantitative methods apart from accounting. For instance, financial managers should consider the impact of new product development and promotion plans made in the marketing area since their plans will require capital outlays and have an impact on the projected cash flows.

# TYPES OF FINANCING

## Chapter Overview

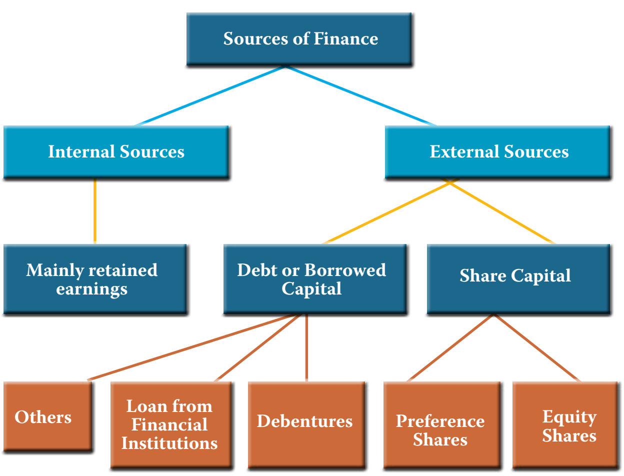



### Classification of Financial Sources

There are mainly two ways of classifying various financial sources (i) Based on basic Sources (ii) Based on Maturity of repayment period

### Sources of Finance based on Basic Sources

Based on basic sources of finance, types of financing can be classified as




### Sources of Finance based on Maturity of Payment

Sources of finance based on maturity of payment can be classified as

## Sources of Finance

**Long-term**

1. Share capital or Equity shares
2. Preference shares
3. Retained earnings
4. Debentures/Bonds of different types
5. Loans from financial institutions
6. Loans from State Financial Corporations
7. Loans from commercial banks
8. Venture capital funding
9. Asset securitisation
10. International financing like Euro-issues, Foreign currency loans

**Medium-term**

1. Preference shares
2. Debentures/Bonds
3. Public deposits/fixed deposits for duration of three years
4. Medium term loans from Commercial banks, Financial Institutions, State Financial Corporations
5. Lease financing/Hire-Purchase financing
6. External commercial borrowings
7. Euro-issues
8. Foreign Currency bonds

**Short-term**

1. Trade credit
2. Accrued expenses and deferred income
3. Short term loans like Working Capital Loans from Commercial banks
4. Fixed deposits for a period of 1 year or less
5. Advances received from customers
6. Various short-term provisions

### Owner's Capital or Equity Capital:

A public limited company may raise funds from promoters or from the investing public by way of owner's capital or equity capital by issuing ordinary equity shares.

### Preference Share Capital:

These are a special kind of shares; the holders of such shares enjoy priority, both as regards to the payment of a fixed amount of dividend and also towards repayment of capital on winding up of the company

**Debt Securitisation:**

**Securitization is a process in which illiquid assets are pooled into marketable securities that can be sold to investors. The process leads to the creation of financial instruments that represent ownership interest in, or are secured by a segregated income producing asset or pool of assets.**

**Lease Financing:**

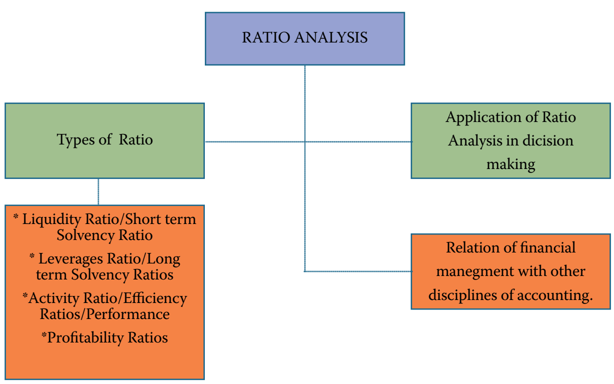
**Leasing is a general contract between the owner and user of the asset over a specified period of time. The asset is purchased initially by the lessor (leasing company) and thereafter leased to the user (lessee company) which pays a specified rent at periodical intervals.**

**Short term Sources of Finance:**

**There are various sources available to meet short- term needs of finance. The different sources are as shown alongside**

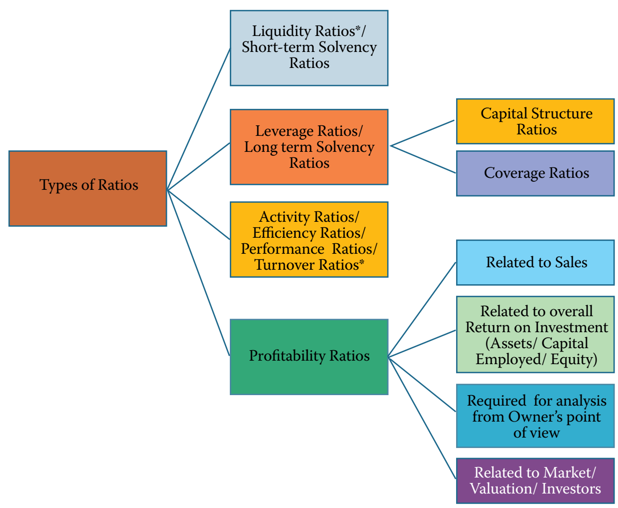

# FINANCIAL ANALYSIS AND PLANNING - RATIO ANALYSIS

## Chapter Overview




## Ratio and its Types:

Ratio analysis is a comparison of different numbers from the balance sheet, income statement, and cash flow statement against the figures of previous years, other companies, the industry, or even the economy in general for the purpose of financial analysis. Types of the Ratios is as given slongside:




## Summary of Ratios:

Summary of the ratios has been tabulated as under

| Ratio | Formulae | Comments |
|---|---|---|
| **Liquidity Ratio** | | |
| **Current Ratio** | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | A simple measure that estimates whether the business can pay short term debts. Ideal ratio is 2 : 1. |
| **Quick Ratio** | $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$ | It measures the ability to meet current debt immediately. Ideal ratio is 1 : 1. |
| **Cash Ratio** | $\frac{\text{(Cash and Bank Balances + Marketable Securities )}}{\text{Current Liabilities}}$ | It measures absolute liquidity of the business. |

| | | |
|---|---|---|
| **Basic Defense Interval Ratio** | ( Cash and Bank Balances + Marketable Securities) / Operating Expenses – No. of days | It measures the ability of the business to meet regular cash expenditures. |
| **Net Working Capital Ratio** | Current Assets – Current Liabilities | It is a measure of cash flow to determine the ability of business to survive financial crisis. |
| **Capital Structure Ratio** | | |
| **Equity Ratio** | Shareholders' Equity / Capital Employed | It indicates owner's fund in companies to total fund invested. |
| **Debt Ratio** | Total Outside Liablilities / Total Debt + Net Worth | It is an indicator of use of outside funds. |
| **Debt to equity Ratio** | Total Outside Liabilities / Shareholders' Equity | It indicates the composition of capital structure in terms of debt and equity. |
| **Debt to Total assets Ratio** | Total Outside Liabilities / Total Assets | It measures how much of total assets is financed by the debt. |
| **Capital Gearing Ratio** | ( Preference Share Capital + Debentures + Other Borrowed Funds) / ( Equity Share Capital + Reserves & Surplus – Losses) | It shows the proportion of fixed interest bearing capital to equity shareholders' fund. It also signifies the advantage of financial leverage to the equity shareholder. |
| **Proprietary Ratio** | Prorietary Fund / Total Assets | It measures the proportion of total assets financed by shareholders. |
| **Coverage Ratios** | | |
| **Debt Service Coverage Ratio (DSCR)** | Earnings available for debt service / Interest + Instalments | It measures the ability to meet the commitment of various debt services like interest, installment etc. Ideal ratio is 2. |
| **Interest Coverage Ratio** | EBIT / Interest | It measures the ability of the business to meet interest. Ideal ratio is > 1. |
| **Preference Dividend Coverage Ratio** | Net Profit/Earning after taxes (EAT) / Preference dividend liability | It measures the ability to pay the preference shareholders' dividend. Ideal ratio is > 1. |
| **Fixed Charges Coverage Ratio** | EBIT + Depreciation / Interest + Re-payment of loan / 1 – tax rate | This ratio shows how many times the cash flow before interest and taxes covers all fixed financing charges. The ideal ratio is > 1. |
| **Activity Ratio/ Efficiency Ratio/ Performance Ratio/ Turnover Ratio** | | |
| **Total Asset Turnover Ratio** | Sales/COGS / Average Total Assets | A measure of total asset utilisation. It helps to answer the question - What sales are being generated by each rupee's worth of assets invested in the business? |
| **Fixed Assets Turnover Ratio** | Sales/COGS / Fixed Assets | This ratio is about fixed asset capacity. A reducing sales or profit being generated from each rupee invested in fixed assets may indicate overcapacity or poorer-performing equipment. |
| **Capital Turnover Ratio** | Sales/COGS / Net Assets | This indicates the firm's ability to generate sales per rupee of long term investment. |
| **Working Capital Turnover Ratio** | Sales/COGS / Working Capital | It measures the efficiency of the firm to use working capital. |
| **Inventory Turnover Ratio** | COGS/Sales / Average Inventory | It measures the efficiency of the firm to manage its inventory. |
| **Debtors Turnover Ratio** | Credit Sales / Average Accounts Receivable | It measures the efficiency at which firm is managing its receivables. |

| | | |
|---|---|---|
| **Receivables (Debtors') Velocity** | $\frac{\text{Average Accounts Receivable}}{\text{Average Daily Credit Sales}}$ | It measures the velocity of collection of receivables. |
| **Payables Turnover Ratio** | $\frac{\text{Annual Net Credit Purchases}}{\text{Average Accounts Payables}}$ | It measures the velocity of payables payment. |
| **Profitability Ratios based on Sales** | | |
| **Gross Profit Ratio** | $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$ | This ratio tells us something about the business's ability consistently to control its production costs or to manage the margins it makes on products it buys and sells. |
| **Net Profit Ratio** | $\frac{\text{Net Profit}}{\text{Sales}} \times 100$ | It measures the relationship between net profit and sales of the business. |
| **Operating Profit Ratio** | $\frac{\text{Operating Profit}}{\text{Sales}} \times 100$ | It measures operating performance of business. |
| **Expenses Ratio** | | |
| **Cost of Goods Sold (COGS) Ratio** | $\frac{\text{COGS}}{\text{Sales}} \times 100$ | It measures portion of a particular expenses in comparison to sales. |
| **Operating Expenses Ratio** | $\frac{\text{Administrative exp.} + \text{Selling \& Distribution OH}}{\text{Sales}} \times 100$ | |
| **Operating Ratio** | $\frac{\text{COGS + Operating Expenses}}{\text{Sales}} \times 100$ | |
| **Financial Expenses Ratio** | $\frac{\text{Financial Expenses}}{\text{Sales}} \times 100$ | |
| **Profitability Ratios related to Overall Return on Assets/ Investments** | | |
| **Return on Investment (ROI)** | $\frac{\text{Return/ Profit / Earnings}}{\text{Investments}} \times 100$ | It measures overall return of the business on investment/ equity funds/ capital employed/ assets. |
| **Return on Assets (ROA)** | $\frac{\text{Net Profit after taxes}}{\text{Average Total Assets}} \times 100$ | It measures net profit per rupee of average total assets/ average tangible assets/ average fixed assets. |
| **Return on Capital Employed ROCE (Pre-tax)** | $\frac{\text{EBIT}}{\text{Capital Employed}} \times 100$ | It measures overall earnings (either pre-tax or post tax) on total capital employed. |

## Users and Objective of Financial Analysis : A Bird's Eye view

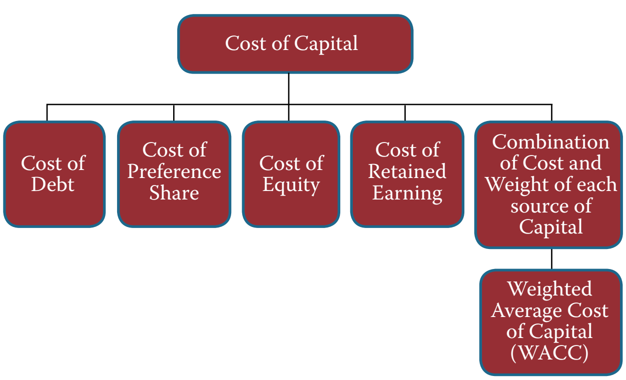
Financial Statement analysis is useful to various shareholders to obtain the derived information about the firm

| S.No. | Users | Objectives | Ratios used in general |
|---|---|---|---|
| 1. | Shareholders | Being owners of the organisation they are interested to know about profitability and growth of the organization | • Mainly Profitability Ratio [In particular Earning per share (EPS), Dividend per share (DPS), Price Earnings (P/E), Dividend Payout ratio (DP)] |
| 2. | Investors | They are interested to know overall financial health of the organisation particularly future perspective of the organisations. | • Profitability Ratios<br>• Capital structure Ratios<br>• Solvency Ratios<br>• Turnover Ratios |
| 3. | Lenders | They will keep an eye on the safety perspective of their money lended to the organisation | • Coverage Ratios<br>• Solvency Ratios<br>• Turnover Ratios<br>• Profitability Ratios |

| | | | |
|---|---|---|---|
| 4. | Creditors | They are interested to know liability position of the organisation particularly in short term. Creditors would like to know whether the organisation will be able to pay the amount on due date. | • Liquidity Ratios<br>• Short term solvency Ratios/ Liquidity Ratios |
| 5. | Employees | They will be interested to know the overall financial wealth of the organisation and compare it with competitor company. | • Liquidity Ratios<br>• Long terms solvency Ratios<br>• Profitability Ratios<br>• Return of investment |
| 6. | Regulator / Government | They will analyse the financial statements to determine taxations and other details payable to the government. | Profitability Ratios |
| 7. | Managers:- | | |
| | (a) Production Managers | They are interested to know various data regarding input output, production quantities etc. | • Input output Ratio<br>• Raw material consumption. |
| | (b) Sales Managers | Data related to quantities of sales for various years, other associated figures and produced future sales figure will be an area of interest for them | • Turnover ratios (basically receivable turnover ratio)<br>• Expenses Ratios |
| | (c) Financial Manager | They are interested to know various ratios for their future predictions of financial requirement. | • Profitability Ratios (particularly related to Return on investment)<br>• Turnover ratios<br>• Capital Structure Ratios |
| | Chief Executive/ General Manager | They will try to find the entire perspective of the company, starting from Sales, Finance, Inventory, Human resources, Production etc. | • All Ratios |
| 8. | Different Industry | | |
| | (a) Telecom | Finance Manager /Analyst will calculate ratios of their company and compare it with Industry norms. | • Ratio related to 'call'<br>• Revenue and expenses per customer |
| | (b) Bank | | • Loan to deposit Ratios<br>• Operating expenses and income ratios |
| | (c) Hotel | | • Room occupancy ratio<br>• Bed occupancy Ratios |
| | (d) Transport | | • Passenger -kilometre<br>• Operating cost - per passenger kilometre. |

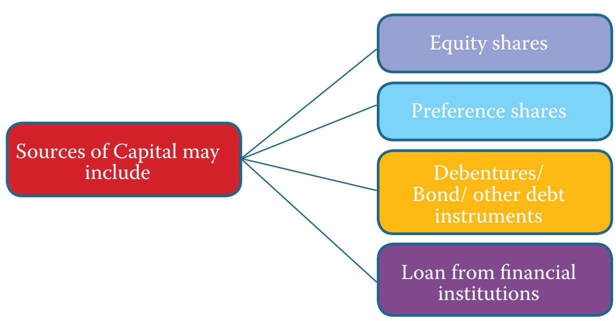
# COST OF CAPITAL

## Chapter Overview



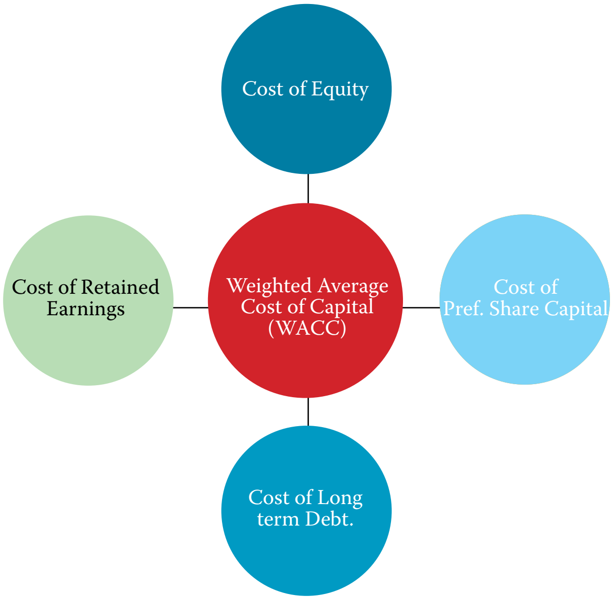

Cost of capital is the return expected by the providers of capital (i.e. shareholders, lenders and the debt-holders) to the business as a compensation for their contribution to the total capital. It is also known as Discount rate, Minimum rate of return etc. It can also be stated as the opportunity cost of an investment, i.e. the rate of return that a company would otherwise be able to earn at the same risk level as the investment that has been selected.

## Sources of Capital:

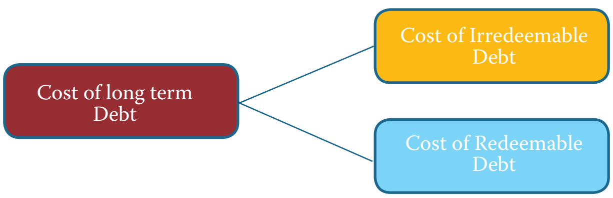



## Determination of the Cost of Capital:

**Explicit/ Implicit**: The cost of capital can either be explicit or implicit. The cash outflow of an entity towards the utilization of capital which is clear and obvious is termed as explicit cost of capital. On the other hand, Implicit cost is the cost which is actually not a cash outflow but it is an opportunity loss of foregoing a better investment opportunity by choosing an alternative option.




## Cost of Long term Debt:




**Cost of Irredeemable Debentures:** Cost of debentures not redeemable during the life time of the company

$$K_d = \frac{I}{NP}(1-t)$$

Where,

$K_d$ = Cost of debt after tax

I = Annual interest payment

NP = Net proceeds of debentures or current market price

t = Tax rate

**Cost of Redeemable Debentures:** If the debentures are redeemable after the expiry of a fixed period, the cost of debentures would be:

$$K_d = \frac{I(1-t)+\frac{(RV-NP)}{n}}{\frac{(RV+NP)}{2}}$$

Where,

I = Interest payment

NP = Net proceeds from debentures in case of new issue of debt or Current market price in case of existing debt.

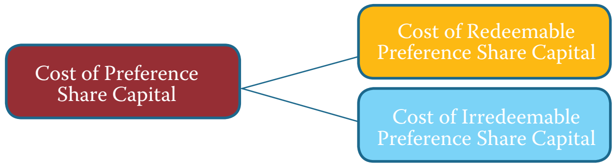
RV = Redemption value of debentures

t = Tax rate applicable to the company

n = Life of debentures

## Cost of Preference Share Capital:

The preference share capital is paid dividend at a specified rate on face value of preference shares. Payment of dividend to the preference shareholders are not mandatory but are given priority over the equity shareholder. The payment of dividend to the preference shareholders are not charged as expenses but treated as appropriation of after tax profit. Hence, dividend paid to preference shareholders does not reduce the tax liability to the company.




## Cost of Irredeemable Preference Shares:

$$(Kp) = \frac{PD}{P_0}$$

Where,

PD = Annual preference dividend

$P_0$ = Net proceeds in issue of preference shares

## Cost of Redeemable Preference Shares

$$(Kp) = \frac{PD+(RV+NP)/n}{\frac{RV+NP}{2}}$$

Where,

PD = Annual preference dividend

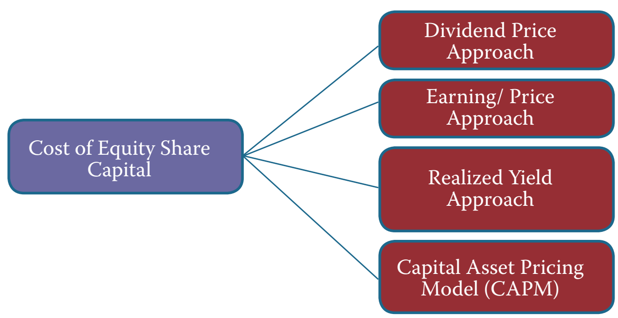
RV = Redemption value of preference shares

NP = Net proceeds on issue of preference shares

n = Life of preference shares

## Cost of Equity Share Capital:

Cost of equity capital is the rate of return which equates the present value of expected dividends with the market share price. Different methods are employed to compute the cost of equity share capital which are as




## Dividend Price Approach with Constant Dividend

$$Ke = \frac{D}{P_0}$$

Where,

Ke = Cost of equity

D = Expected dividend

$P_0$ = Market price of equity (ex- dividend)

## Dividend Price Approach with Constant Growth

$$Ke = \frac{D_1}{P_o} + g$$

Where,

$D_1 = [D_0 (1+ g)]$ i.e. next expected dividend

$P_0$ = Current Market price per share

g = Constant Growth Rate of Dividend

## Earning/ Price Approach with constant Earning:

$$K_e = \frac{E}{P}$$

Where,

E = Current earnings per share

P = Market share price

## Earnings/ Price Approach with Growth in Earnings:

$$K_e = \frac{E}{P} + g$$

Where,

E = Current earnings per share

P = Market price per share

g = Annual growth rate of earnings.

## Realized Yield Approach:

According to this approach, the average rate of return realized in the past few years is historically regarded as 'expected return' in the future. It computes cost of equity based on the past records of dividends actually realised by the equity shareholders.

## Capital Asset Pricing Model Approach (CAPM):

$$K_e = R_f + ß (R_m - R_f)$$

Where,

| | | |
|---|---|---|
| $K_e$ | = | Cost of equity capital |
| $R_f$ | = | Risk free rate of return |
| ß | = | Beta coefficient |
| $R_m$ | = | Rate of return on market portfolio |
| $(R_m - R_f)$ | = | Market premium |

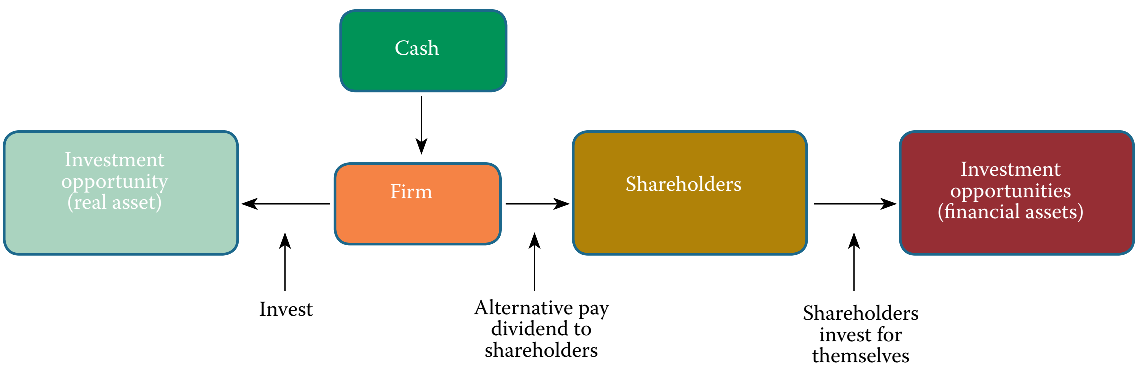
## Cost of Retained Earnings

Like another source of fund, retained earnings involve cost. It is the opportunity cost of dividends foregone by shareholders.

In absence of any information on personal tax ($t_p$):

Cost of Retained Earnings ($K_s$) = Cost of Equity Shares ($K_e$)

If there is any information on personal tax (tp): $K_s = Ke - t_p$




## Weighted Average Cost Of Capital (WACC):

It is an average rate of return expected by all contributors of capital taking the weight of each element of capital to total capital

WACC ($K_o$) = (% Debt × $K_d$) + (% Preff. Capital × $K_p$) + (% Equity Capital × $K_e$)

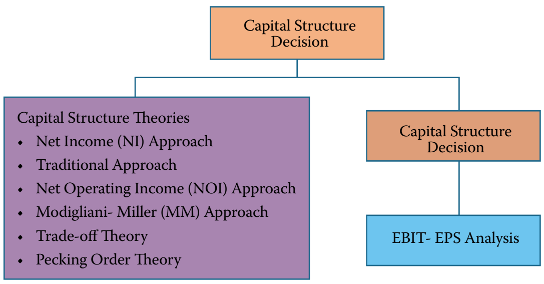
## Marginal Cost of Capital:

It is the cost of raising an additional rupee of capital. Since the capital is raised in substantial amount in practice, marginal cost is referred to as the cost incurred in raising new funds.

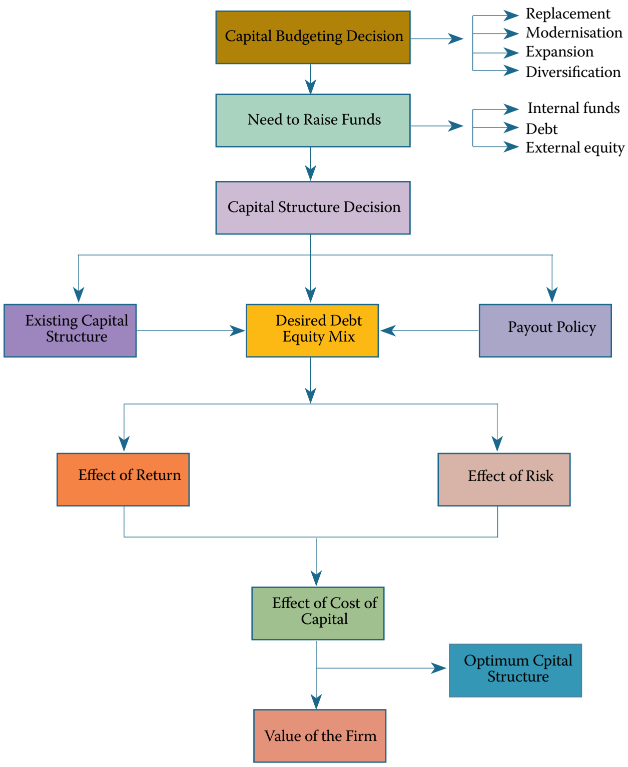
To calculate the marginal cost of capital, the intended financing proportion should be applied as weights to marginal component costs. The marginal cost of capital should, therefore, be calculated in the composite sense. The marginal weights represent the proportion of funds the firm intends to employ.

# FINANCING DECISIONS-CAPITAL STRUCTURE

## Chapter Overview

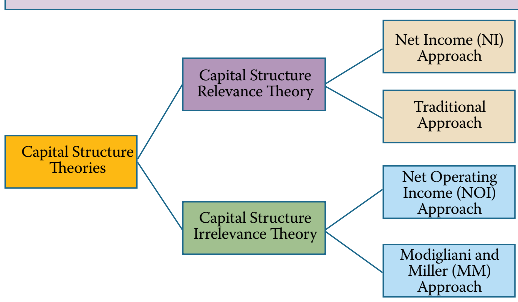



Capital Structure decision refers to deciding the forms of financing (which sources to be tapped); their actual requirements (amount to be funded) and their relative proportions (mix) in total capitalisation.




## Capital Structure Theories:

The following approaches explain the relationship between cost of capital, capital structure and value of the firm




## Net Income (NI) Approach:

According to this approach, capital structure decision is relevant to the value of the firm. An increase in financial leverage will lead to decline in the weighted average cost of capital (WACC), while the value of the firm as well as market price of ordinary share will increase. Conversely, a decrease in the leverage will cause an increase in the overall cost of capital and a consequent decline in the value as well as market price of equity shares

The value of the firm on the basis of Net Income Approach can be ascertained as follows:

V = Market Value of Equity + Market Value of Debt

$$\text{Overall cost of capital} = \frac{\text{EBIT}}{\text{Value of the Form}}$$

## Traditional Approach:

This approach favours that as a result of financial leverage up to some point, cost of capital comes down and value of firm increases. However, beyond that point, reverse trends emerge. The principle implication of this approach is that the cost of capital is dependent on the capital structure and there is an optimal capital structure which minimises cost of capital.

## Net Operating Income Approach (NOI):

Any change in the leverage will not lead to any change in the total value of the firm and the market price of shares, as the overall cost of capital is independent of the degree of leverage. As a result, the division between debt and equity is irrelevant.

As per this approach, an increase in the use of debt which is apparently cheaper is offset by an increase in the equity capitalisation rate. This happens because equity investors seek higher compensation as they are opposed to greater risk due to the existence of fixed return securities in the capital structure.

$$V = \frac{NOI}{K_O}$$

Where,

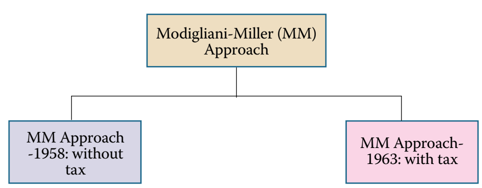
V = Value of the firm

NOI = Net operating Income

$K_o$ = Cost of Capital

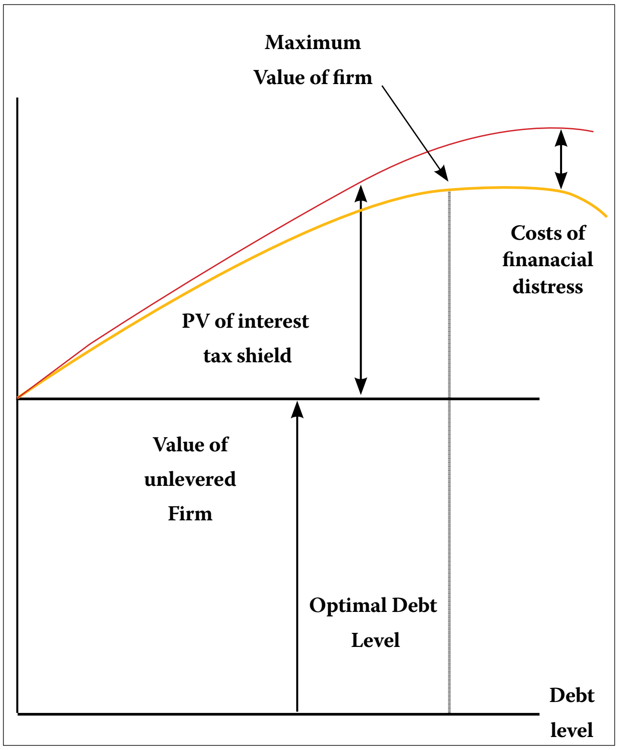
## Modigliani-Miller Approach (MM):

The NOI approach is definitional or conceptual and lacks behavioral significance. It does not provide operational justification for irrelevance of capital structure. However, Modigliani-Miller approach provides behavioral justification for constant overall cost of capital and therefore, total value of the firm. This approach indicates that the capital structure is irrelevant because of the arbitrage process which will correct any imbalance i.e. expectations will chane and a stage will be reached where arbitrage is not possible.



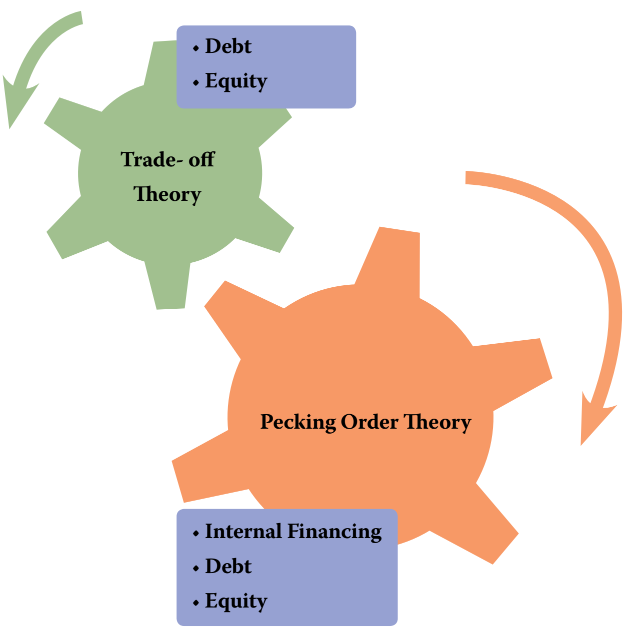

## The Trade-off Theory:

The trade-off theory of capital structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits.




## Pecking order theory:

This theory is based on Asymmetric information, which refers to a situation in which different parties have different information.




## EBIT-EPS Analysis:

The basic objective of financial management is to design an appropriate capital structure which can provide the highest earnings per share (EPS) over the company's expected range of earnings before interest and taxes (EBIT).

EPS measures a company's performance for the shareholders. The level of EBIT varies from year to year and represents the success of a company's operations.

However, The EPS criterion ignores the risk dimension as well as it is more of a performance measure.

$$\frac{(EBIT-I_1)\ (1-t)}{E_1} = \frac{(EBIT-I_2)\ (1-t)}{E_2}$$

Where,

| | | |
|---|---|---|
| EBIT | = | Indifference point |
| $E_1$ | = | Number of equity shares in Alternative 1 |
| $E_2$ | = | Number of equity shares in Alternative 2 |
| $I_1$ | = | Interest charges in Alternative 1 |
| $1_2$ | = | Interest charges in Alternative 2 |
| T | = | Tax-rate |
| Alternative 1 | = | All equity finance |
| Alternative 2 | = | Debt-equity finance |

**Over- Capitalisation**

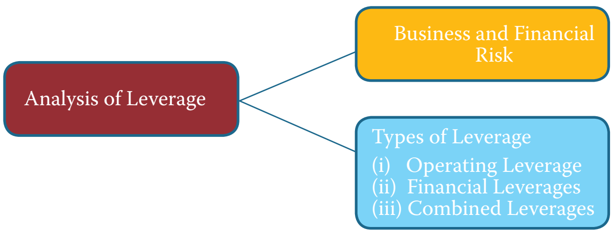
- It is a situation where a firm has more capital than it needs or in other words assets are worth less than its issued share capital, and earnings are insufficient to pay dividend and interest.

**Under Capitalisation**

- It is just reverse of over-capitalisation. It is a state, when its actual capitalisation is lower than its proper capitalisation as warranted by its earning capacity.

# FINANCING DECISIONS- LEVERAGES

## Chapter Overview




In financial analysis, leverage represents the influence of one financial variable over some other related financial variable. These financial variables may be costs, output, sales revenue, Earnings Before Interest and Tax (EBIT), Earning per share (EPS) etc.

## Business Risk and Financial Risk:

Risk facing the common shareholders is of two types, namely business risk and financial risk. Therefore, the risk faced by common shareholders is a function of these two risks, i.e. (Business Risk, Financial Risk).

**Business Risk**

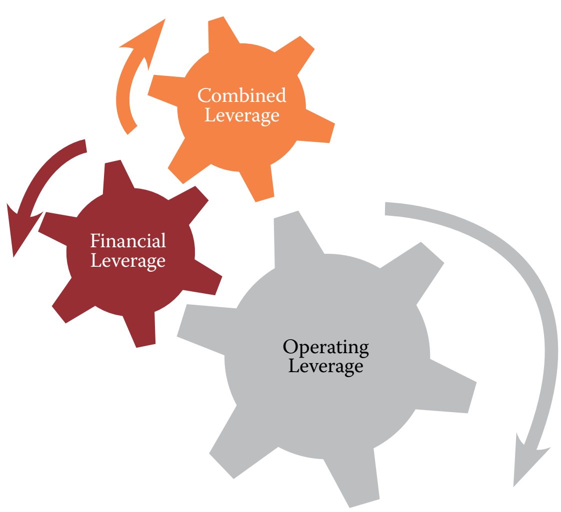
- It refers to the risk associated with the firm's operations. It is the uncertainty about the future operating income (EBIT), i.e. how well can the operating incomes be predicted?

**Financial Risk**

- It refers to the additional risk placed on the firm's shareholders as a result of debt use i.e. the additional risk a shareholder bears when a company uses debt in addition to equity financing.

## Types of Leverage:

There are three commonly used measures of leverage in financial analysis. These are




## Chart Showing Operating Leverage, Financial Leverage and Combined Leverage

| Profitability Statement | | | |
|---|---|---|---|
| **Sales** | xxx | | |
| *Less*: **Variable Cost** | (xxx) | | |
| **Contribution** | xxx | **Operating Leverage** | **Combined Leverage** |
| *Less*: **Fixed Cost** | (xxx) | | |
| **Operating Profit/ EBIT** | xxx | **Financial Leverage** | |
| *Less*: **Interest** | (xxx) | | |
| **Earnings Before Tax (EBT)** | xxx | | |
| *Less*: **Tax** | (xxx) | | |
| **Profit After Tax (PAT)** | xxx | | |
| *Less*: **Pref. Dividend (if any)** | (xxx) | | |
| **Net Earnings available to equity shareholders/ PAT** | xxx | | |
| **No. Equity shares (N)** | | | |
| **Earnings per Share (EPS) = (PAT ÷ N)** | | | |

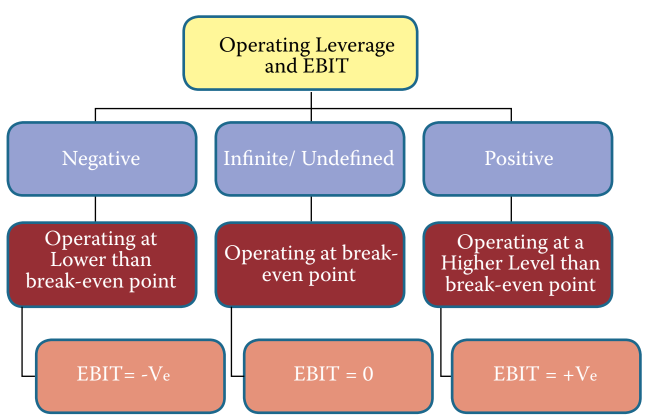
## Operating Leverage:

Operating leverage (OL) maybe defined as the employment of an asset with a fixed cost in the hope that sufficient revenue will be generated to cover all the fixed and variable costs.

$$\text{Operating leverage} = \frac{\text{Contribution}}{\text{EBIT}}$$

$$\text{Degree of Operating Leverage (DOL)} = \frac{\text{\% change in EBIT}}{\text{\% change in Sales}}$$

## Positive and Negative Operating Leverage:



## Financial Leverage:

Financial leverage (FL) maybe defined as 'the use of funds with a fixed cost in order to increase earnings per share.' In other words, it is the use of company funds on which it pays a limited return.

$$\text{Financial leverage} = \frac{\text{EBIT}}{\text{EBT}}$$

$$\text{Degree of Financial Leverage (DFL)} = \frac{\text{\% change in EPS}}{\text{\% change in EBIT}}$$

## Positive and Negative Financial Leverage:

Financial Leverage

- Positive
  - EBIT level is more than Fixed Financial Charge
    - EPS: will change in the same direction as EBIT
- Infinite/ Undefined
  - Operating at Financial break even point
    - No Profit no Loss
- Negative
  - EBIT level is less than Fixed Financial Charge
    - EPS : Negative

## Combined Leverage:

Combined leverage

- It maybe defined as the potential use of fixed costs, both operating and financial, which magnifies the effect of sales volume change on the earning per share of the firm.

Degree of Combined Leverage = DOL X DFL

$$\text{Degree of Combined Leverage (DCL)} = \frac{\text{\% change in EPS}}{\text{\% change in Sales}}$$

**Financial Leverage as 'Trading on Equity'**

- Financial leverage indicates the use of funds with fixed cost like long term debts and preference share capital along with equity share capital which is known as trading on equity. When the quantity of fixed cost fund is relatively high in comparison to equity capital, it is said that the firm is "trading on equity".

**Financial Leverage as a 'Double edged Sword'**

- On one hand when cost of 'fixed cost fund' is less than the return on investment financial leverage will help to increase return on equity and EPS. However, when cost of debt is more than the return it will affect return of equity and EPS unfavourably. This is why financial leverage is known as "double edged sword".

# INVESTMENT DECISIONS

## Chapter Overview:

Investment Decisions

- Types of Investment Decisions
- Basic Principles for measuring Project Cash Flows
- Capital Budgeting in special cases
- Capital Budgeting Techniques:
  - Pay-back period
  - Accounting Rare of Return (ARR)
  - Net Present Value (NPV)
  - Profitability Index (NI)
  - Internal Rate of Return (IRR)
  - Modified Internal Rate of Return (MIRR)
  - Discounted Pay-back period

Capital Budgeting involves

- Identification of investment projects that are strategic to business overall objectives;
- Estimating and evaluating post-tax incremental cash flows for each of the investment proposals; and
- Selection of an investment proposal that maximizes the return to the investors

## Capital Budgeting Process:

Planning → Evaluation → Selection → Implementation → Control → Review

## Chapter Overview

Generally, capital investment decisions are classified in two ways. One way is to classify them on the basis of firm's existence. Another way is to classify them on the basis of decision situation.

- Types of Capital Investment Decisions
  - On the basis of firm's existence
    - Replacement and Modernisation decisions
    - Expansion decisions
    - Diversification decisions
  - On the basis of decision situation
    - Mutualy exclusive decisions
    - Accept-Reject decisions
    - Contingent decisions

## Estimation of Project Cash Flows

Capital Budgeting analysis considers only incremental cash flows from an investment likely to result due to acceptance of any project. Therefore, one of the most important tasks in capital budgeting is estimating future cash flows for a project.

## Calculating Cash Flows

| Particulars | No Depreciation is Charged | Depreciation is Charged |
|---|---|---|
| | (₹Crore) | (₹Crore) |
| **Total Sales** | *** | *** |
| ***Less*: Cost of Goods Sold** | *** | *** |
| | *** | *** |
| ***Less*: Depreciation** | - | *** |
| **Profit before tax** | *** | *** |
| **Tax @ 30%** | *** | *** |
| **Profit after Tax** | *** | *** |
| **Add: Depreciation*** | - | *** |
| **Cash Flow** | *** | *** |

* Being non-cash expenditure, depreciation has been added back while calculating the cash flow.

## Statement showing the calculation of Cash Inflow after Tax (CFAT):

| Sl. no. | | (₹) |
|---|---|---|
| 1 | Total Sales Units | xxx |
| 2 | Selling Price per unit | xxx |
| 3. | Total Sales [1 × 2] | xxx |
| 4. | Less: Variable Cost | xxx |
| 5. | Contribution [3 - 4] | xxx |
| 6. | Less: Fixed Cost | |
| | (a) Fixed Cash Cost | xxx |
| | (b) Depreciation | xxx |
| 7. | Earning Before Tax [6 - 7] | xxx |
| 8. | Less: Tax | xxx |
| 9. | Earning After Tax [7-8] | xxx |
| 10. | Add: Depreciation | xxx |
| 11. | Cash Inflow After Tax (CFAT) [9 +10] | xxx |

## Capital Budgeting Techniques:

In order to maximise the return to the shareholders of a company, it is important that the best or most profitable investment projects are selected as the results for making a bad long-term investment decision can be both financially and strategically devastating, particular care needs to be taken with investment project selection and evaluation.

There are a number of techniques available for appraisal of investment proposals and can be classified as presented below:

- Capital Budgeting Techniques
  - Traditional or Non Discounting
    - Payback Period
    - Accounting Rate of Return (ARR)
  - Time adjusted or Discounted Cash Flows
    - Net Present Value (NPV)
    - Profitability Index (PI)
    - Internal Rate of Return (IRR)
    - Modified Internal Rate of Return (MIRR)
    - Discounted Payback Period

## Payback Period:

The payback period of an investment is the length of time required for the cumulative total net cash flows from the investment to equal the total initial cash outlay.

$$\text{Payback period} = \frac{\text{Total initial capital investment}}{\text{Annual expected after-tax net cash flow}}$$

## Accounting (Book) Rate of Return (ARR):

The accounting rate of return of an investment measures the average annual net income of the project (incremental income) as a percentage of the investment.

$$\text{Accounting rate of return} = \frac{\text{Average annual net income}}{\text{Investment}} \times 100$$

## Net Present Value Technique (NPV):

The net present value technique is a discounted cash flow method that considers the time value of money in evaluating capital investments.

$$NPV = \sum_{t=1} \frac{}{(1+k)} - I$$

Where,

C = Cash flow of various years
K = discount rate
N = Life of the project
I = Investment

## Profitability Index /Desirability Factor/ Present Value Index Method (PI):

In comparing alternative proposal of comparing, we have to compare a number of proposals each involving different amounts of cash inflows. One of the methods of comparing such proposals is to work out what is known as the '*Desirability factor*', or '*Profitability index*' or '*Present Value Index Method*'.

$$\text{Profitability Index (PI)} = \frac{\text{Sum of discounted cash in flows}}{\text{Initial cash outlay or Total discounted cash outflow (as the case maybe)}}$$

## Decision Rule:

| | |
|---|---|
| **If PI ≥ 1** | **Accept the Proposal** |
| **If PI ≤ 1** | Reject the Proposal |

In case of mutually exclusive projects; project with higher PI should be selected.

## Internal Rate of Return Method (IRR):

Internal rate of return for an investment proposal is the discount rate that equates the present value of the expected net cash flows with the initial cash outflow.

$$LR + \frac{\text{NPV at LR}}{\text{NPV at LR- NPV at HR}} \times (\text{HR-LR})$$

Where,

LR = Lower Rate

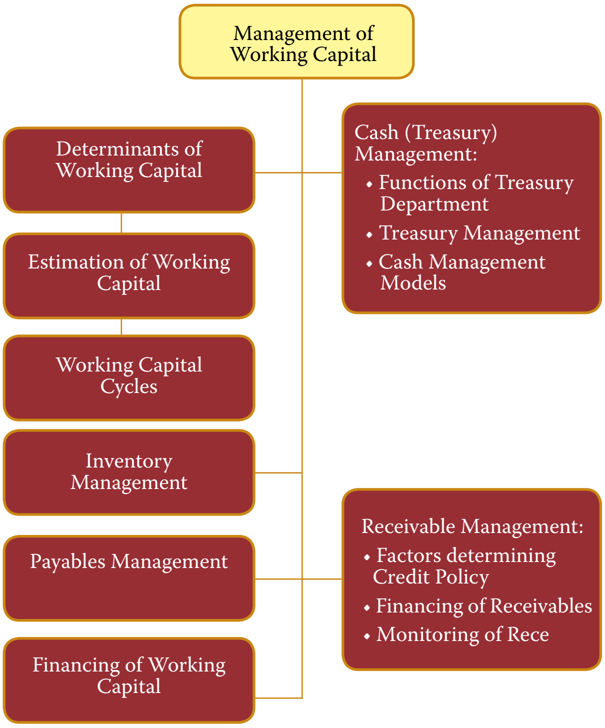
HR = Higher Rate

## Summary of Decision criteria of Capital Budgeting techniques:

| Techniques | | For Independent Project | For Mutually Exclusive Projects |
|---|---|---|---|
| **Non-Discounted** | **Pay Back** | (i) When Payback period ≤ Maximum Acceptable Payback period: **Accepted**<br>(ii) When Payback period ≥ Maximum Acceptable Payback period: **Rejected** | Project with least Payback period should be selected |
| | **Accounting Rate of Return (ARR)** | (i) When ARR ≥ Minimum Acceptable Rate of Return: **Accepted**<br>(ii) When ARR ≤ Minimum Acceptable Rate of Return: **Rejected** | Project with the maximum ARR should be selected. |
| **Discounted** | **Net Present Value (NPV)** | (i) When NPV > 0: **Accepted**<br>(ii) When NPV < 0: **Rejected** | Project with the highest positive NPV should be selected |
| | **Profitability Index(PI)** | (i) When PI > 1: **Accepted**<br>(ii) When PI < 1: **Rejected** | When Net Present Value is same, project with Highest PI should be selected |
| | **Internal Rate of Return (IRR)** | (i) When IRR > K: **Accepted**<br>(ii) When IRR < K: **Rejected** | Project with the maximum IRR should be selected |

# MANAGEMENT OF WORKING CAPITAL

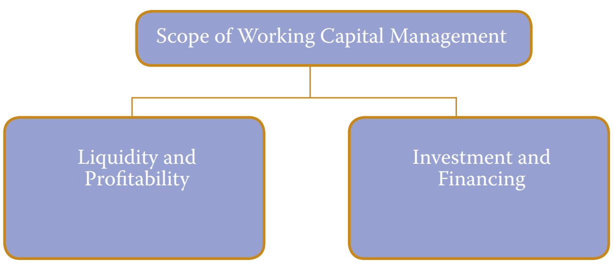
## Chapter Overview




**Working Capital:** In accounting term working capital is the difference between the current assets and current liabilities.

**Working Capital = Current Assets – Current Liabilities**

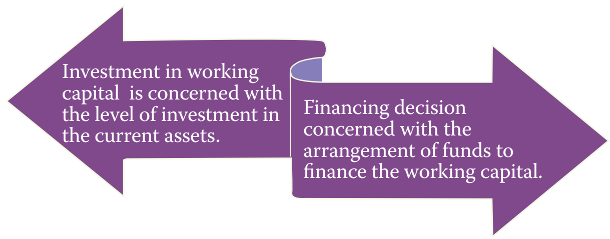
## Scope of Working Capital Management

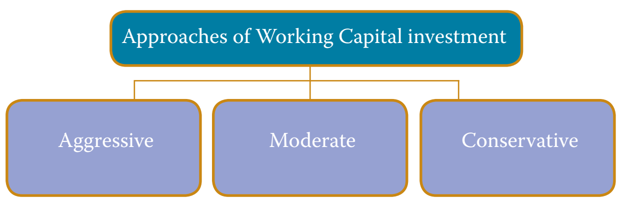



**Liquidity vs Profitability:** The trade-off between the components of working capital can be summarised as follows:

| Component of Working Capital | Advantages of higher side (Profitability) | Trade-off (between Profitability and Liquidity) | Advantages of lower side (Liquidity) |
|---|---|---|---|
| **Inventory** | Fewer stock- outs increase the profitability. | Use techniques like EOQ, JIT etc. to carry optimum level of inventory. | Lower inventory requires less capital but endangered stock-out and loss of goodwill. |
| **Receivables** | Higher Credit period attract customers and increase revenue | Evaluate the credit policy; use the services of debt management (factoring) agencies. | Cash sales provide liquidity but fails to boost sales and revenue |
| **Pre-payment of expenses** | Reduces uncertainty and profitable in inflationary environment. | Cost-benefit analysis required | Improves or maintains liquidity. |
| **Cash and Cash equivalents** | Payables are honoured in time, improves the goodwill and helpful in getting future discounts. | Cash budgets and other cash management techniques can be used | Cash can be invested in some other investment avenues |
| **Payables and Expenses** | Capital can be used in some other investment avenues | Evaluate the credit policy and related cost. | Payables are honoured in time, improves the goodwill and helpful in getting future discounts. |

## Investment and Financing




**Aggressive**

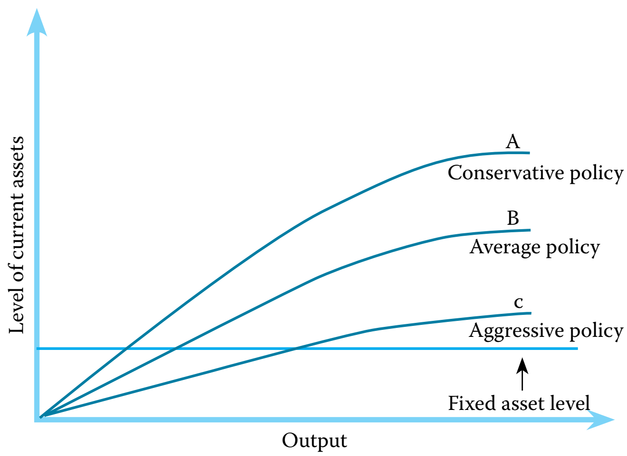
• Here investment in working capital is kept at minimal investment in current assets which means the entity does hold lower level of inventory, follow strict credit policy, keeps less cash balance etc.

**Conservative**

• In this approach of organisation use to invest high capital in current assets. Organisations use to keep inventory level higher, follows liberal credit policies, and cash balance as high as to meet any current liabilities immediately.

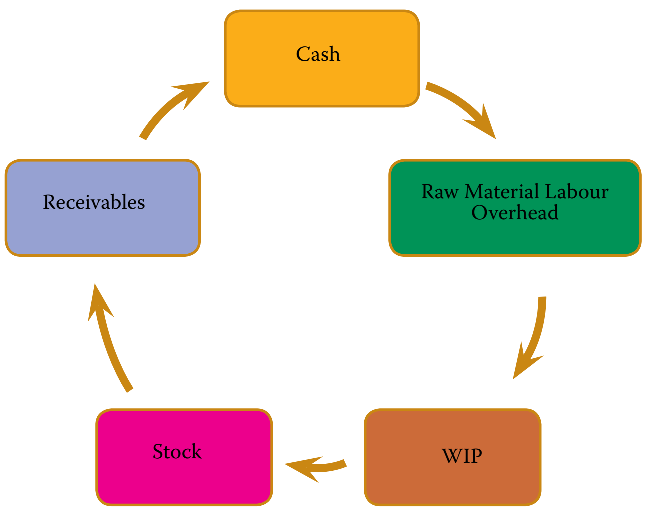
**Moderate**

• This approach is in between the above two approaches. Under this approach a balance between the risk and return is maintained to gain more by using the funds in very efficient manner.




**Operating/ Working Capital Cycle:** Working Capital cycle indicates the length of time between a company's paying for materials, entering into stock and receiving the cash from sales of finished goods.

## Working Capital Cycle




In the form of an equation, the operating cycle process can be expressed as follows:

**Operating Cycle = R + W + F + D – C**

**Where,**

**R = Raw material storage period**

**W = Work-in-progress holding period**

**F = Finished goods storage period**

**D = Receivables (Debtors) collection period.**

**C = Credit period allowed by suppliers (Creditors).**

## The various components of Operating Cycle may be calculated as shown below:

| | | |
|---|---|---|
| (1) | Raw Material Storage Period | $= \dfrac{\text{Avereage stock of Raw material}}{\text{Average Cost of Raw material Consumption per day}}$ |
| (2) | Work-in-Progress holding period | $= \dfrac{\text{Avg Work-in-progress inventory}}{\text{Average Cost of Production per day}}$ |
| (3) | Finished Goods storage period | $= \dfrac{\text{Average stock of finished goods}}{\text{Average Cost of Goods Sold per day}}$ |
| (4) | Receivables (Debtors) collection period | $= \dfrac{\text{Average Receivables}}{\text{Average Credit Sales per day}}$ |
| (5) | Credit period allowed by suppliers (Creditors) | $= \dfrac{\text{Average Payables}}{\text{Average Credit Purchases per day}}$ |

## Estimation of Amount of Different Components of Current Assets and Current Liabilities

**(i) Raw Materials Inventory:**

$$\frac{\text{Estimated Production (units)}}{\text{12 months / 365 days *}} \times \text{Estimated Cost per unit} \times \text{Average raw material storage period}$$

**(ii) Work-in-Progress Inventory:**

$$\frac{\text{Estimated Production (units)}}{\text{12 months / 365 days *}} \times \text{Estimated WIP cost per unit} \times \text{Average W-I-P holding period}$$

**(iii) Finished Goods:**

$$\frac{\text{Estimated Production (units)}}{\text{12 months / 365 days *}} \times \text{Estimated Cost of production per unit} \times \text{Average storage period}$$

**(iv) Receivables (Debtors):**

$$\frac{\text{Estimated Credit Sales unit}}{\text{12 months / 365 days *}} \times \text{Cost of sales (excluding depreciation) per unit} \times \text{Average collection period}$$

**(v) Cash and Cash equivalents:** Minimum desired Cash and Bank balance to be maintained

**(vi) Trade Payables (Creditors):**

$$\frac{\text{Estimated credit purchase}}{\text{12 months / 365 days *}} \times \text{Credit period allowed by suppliers}$$

**(vii) Direct Wages:**

$$\frac{\text{Estimated labour hours x wages rate per hour}}{\text{12 months / 365 days *}} \times \text{Average time lag in payment of wages}$$

**(viii) Overheads (other than depreciation and amortization):**

$$\frac{\text{Estimated Overheads}}{\text{12 months / 360 days *}} \times \text{Average time lag in payment of overheads}$$

**Number of days in a year may be taken as 365 or 360 days.*

## Estimation of Working Capital Requirements

| | | Amount | Amount | Amount |
|---|---|---|---|---|
| I. | **Current Assets:** | | | |
| | Inventories: | | | |
| | - Raw Materials | --- | | |
| | - Work-in-process | --- | | |
| | - Finished goods | --- | --- | |
| | Receivables: | | | |
| | - Trade debtors | --- | | |
| | - Bills | --- | --- | |
| | Minimum Cash Balance | | --- | |
| | **Gross Working Capital** | | --- | --- |
| II. | Current Liabilities: | | | |
| | Trade Payables | | --- | |
| | Bills Payables | | --- | |
| | Wages Payables | | --- | |
| | Payables for overheads | | --- | --- |
| III. | **Excess of Current Assets over Current Liabilities [I – II]** | | | --- |
| IV. | Add: Safety Margin | | | --- |
| V. | **Net Working Capital [III + IV]** | | | --- |

## MANAGEMENT OF RECEIVABLES

### Approaches of Evaluation of Credit Policies

There are basically two methods of evaluating the credit policies to be adopted by a Company – Total Approach and Incremental Approach. The formats for the two approaches are given as under:

**Statement showing the Evaluation of Credit Policies (based on Total Approach)**

| *Particulars* | *Present Policy* | *Proposed Policy I* | *Proposed Policy II* | *Proposed Policy III* |
|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ |
| **A. Expected Profit:** | | | | |
| (a) Credit Sales | ………. | …………. | ……….. | ………. |
| (b) Total Cost other than Bad Debts and Cash Discount | | | | |
| (i) Variable Costs | ………. | …………. | ……….. | ………. |
| (ii) Fixed Costs | ………. | …………. | ……….. | ………. |
| | ……… | ………. | ………. | ……. |
| (c) Bad Debts | ………. | …………. | ……….. | ………. |
| (d) Cash discount | | | | |
| (e) Expected Net Profit before Tax (a-b-c-d) | ……… | ……….. | ……… | ………. |
| (f) *Less:* Tax | ……… | ……….. | ……….. | ……… |
| (g) Expected Profit after Tax | ……… | ……… | ……… | ……… |
| **B. Opportunity Cost of Investments in Receivables locked up in Collection Period** | …….. | ……… | ………. | ……… |
| **Net Benefits (A – B)** | ……… | ……… | ……… | ………. |

**Statement showing the Evaluation of Credit Policies (based on Incremental Approach)**

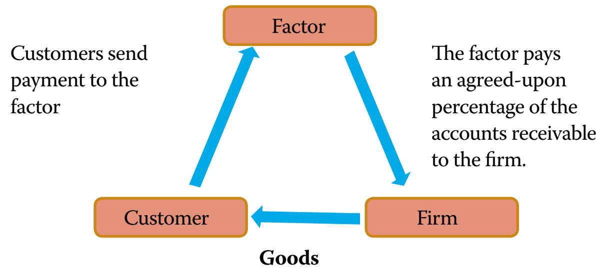
| *Particulars* | *Present Policy days* | *Proposed Policy I days* | *Proposed Policy II days* | *Proposed Policy III days* |
|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ |
| A. Incremental Expected Profit: | | | | |
| Credit Sales | ………. | …………. | ……….. | ………. |
| (a) Incremental Credit Sales | ………. | …………. | ……….. | ………. |
| (b) Less: Incremental Costs of Credit Sales | | | | |
| (i) Variable Costs | ………. | …………. | ……….. | ………. |
| (ii) Fixed Costs | ………. | …………. | ……….. | ………. |
| (c) Incremental Bad Debt Losses | ………. | …………. | ……….. | ………. |
| (d) Incremental Cash Discount | ………. | …………. | ……….. | ………. |
| (e) Incremental Expected Profit (a-b-c-d) | ………. | …………. | ……….. | ………. |
| (f) Less: Tax | ………. | …………. | ……….. | ………. |
| (g) Incremental Expected Profit after Tax | ………. | …………. | ……….. | ………. |
| | ………. | …………. | ……….. | ………. |
| **B. Required Return on Incremental Investments:** | | | | |
| (a) Cost of Credit Sales | ………. | …………. | ……….. | ………. |
| (b) Collection Period (in days) | ………. | …………. | ……….. | ………. |

| | | | | |
|---|---|---|---|---|
| (c) Investment in Receivable (a x b/365 or 360) | ………. | …………. | ……….. | ………. |
| (d) Incremental Investment in Receivables | ………. | …………. | ……….. | ………. |
| (e) Required Rate of Return (in %) | ………. | …………. | ……….. | ………. |
| (f) Required Return on Incremental Investments (d x e) | ………. | …………. | ……….. | ………. |
| **Incremental Net Benefits (A – B)** | ………. | …………. | ……….. | ………. |

## Financing of Receivables

**(i) Pledging:** This refers to the use of a firm's receivable to secure a short term loan.

**(ii) Factoring:** This refers to outright sale of accounts receivables to a factor or a financial agency.




The basic format of evaluating factoring proposal is given as under:

**Statement showing the Evaluation of Factoring Proposal**

| | *Particulars* | ₹ |
|---|---|---|
| **A.** | **Annual Savings (Benefit) on taking Factoring Service** | |
| | Cost of Credit Administration saved | ……….. |
| | Bad Debts avoided | ………… |
| | Interest saved due to reduction in Average collection period (Wherever applicable)<br>[Cost of Annual Credit Sales × Rate of Interest × (Present Collection Period – New Collection Period)/360* days] | ………… |
| | **Total** | ………. |
| **B.** | **Annual Cost of Factoring to the Firm:** | |
| | Factoring Commission [Annual credit Sales × % of Commission (or calculated annually)] | ………. |
| | Interest Charged by Factor on advance (or calculated annually ) | ……….. |
| | [Amount available for advance or (Annual Credit Sales – Factoring Commission – Factoring Reserve)] ×<br>$\left[\frac{\text{Collection Period (days)}}{360^{*}} \times \text{Rate of Interest}\right]$ | |
| | **Total** | ………. |
| **C.** | **Net Annual Benefits/Cost of Factoring to the Firm:** | ………. |
| | Rate of Effective Cost of Factoring to the Firm<br>$= \frac{\text{Net Annual cost of Factoring}}{\text{Amount available for advance}} \times 100$ or<br>$\frac{\text{Net annual Cost of Factoring}}{\text{Advances to be paid}} \times 100$ | |
| | Advances to be paid = (Amount available for advance – Interest deducted by factor) | |

## CA Students Conference- KANPUR

**2nd & 3rd DECEMBER, 2017**

**ICAI BHAWAN, LAKHANPUR, KANPUR**

**Organized by:** Board of Studies, ICAI
**Hosted by:** Central India Regional Council of ICAI
**THEME: NURTURING VALUES & INTEGRITY- ATTAINING EXCELLENCE IN PROFESSIONAL PURSUITS**

**DAY-1**

| | |
|---|---|
| 9.00 am to 12.00 pm | **Inaugural Session**<br>**Special Session: I : Topic: Motivational Session**<br>**Special Session: II: Interaction and Open House with Board of Studies** |
| 12.00 pm to 1.30 pm | **Technical Session : I: Topic: Goods and Services Tax**- Conceptual framework of CGST, SGST, IGST and UTGST; Exemptions under GST; Returns under GST; Input tax credit and composition levy; Records to be maintained under GST |
| 2.30 pm to 4.00 pm | **Technical Session: II : Topic: Direct Tax** - Restrictions on cash transactions under Income Tax Act, 1961; Disclosure requirement under ICDS - A Practical Approach; International taxation and specified domestic transactions; TDS Compliances |

**DAY-2**

| | |
|---|---|
| 9.00 am to 11.00 am | **Technical Session : III: Topic : Accounting and Auditing**- AS-10- Property, Plant and Equipment; Related party disclosure- AS 18 vs Ind AS 24; Audit programme and documentation in the context of quality assurance/peer review; Concurrent Bank Audits; Audit of CSR activities; Audit Evidence in IT Environment |
| | **Special Session III: Topic : Meet with the achievers** |
| 11.00 am to 01.00 pm | **Technical Session : IV : Topic: Information Technology-** Cryptography; Robotics and Data Analysis; Forensic Audit |
| 2.00 pm to 4.00 pm | **Special Session : IV : Topic : How to Crack CA Exams** |
| | **Technical Session : V : Topic : Corporate and Other Laws**- Incorporation of Companies; Acceptance of Deposits and Loan to Directors; Annual Compliance under Co. Law; Negotiable Instruments Act |

**Students Eligible to attend the Students Conference:** Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Articleship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training.(CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

| | |
|---|---|
| **Registration fees** | ₹ 300/- Per Student till 30.11.2017 (5.30 pm); On the Spot Registration: ₹ 500/- from 01.12.2017 |
| **Payment Mode** | **Cash/DD** in Favour of "CIRC of ICAI" payable at Kanpur; Phone: 0512 3011156/ 3011181/ 3011182;<br>For Details Visit: www.circ-icai.org;email:circ@icai.in |

**CA. Atul Kumar Gupta,** Chairman, BoS; **CA. Mangesh Pandurang Kinare,** Vice-Chairman, BoS; **CA. Manu Agrawal,** Central Council Member, Conference Director; **CA. Deep Kumar Misra,** Chairman, CIRC of ICAI **& CA. Nitesh Gupta,** Chairman, CICASA of CIRC, Conference Coordinators.

## CROSSWORD SOLUTION - NOVEMBER 2017

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| [1]C | A | [2]P | [3]I | [4]T | A | L | | [5]I | | [6]A | N |
| O | | [7]A | L | P | S | | [8]S | A | [9]I | D | |
| [10]S | [11]E | L | L | S | | | A | | [12]N | O | [13]R |
| [14]T | O | M | | | [15]I | [16]I | M | | [17]D | R | I |
| | N | | [18]P | [19]E | E | R | | [20]F | E | E | S |
| [21]N | | [22]E | E | L | | [23]D | [24]I | | [25]P | S | K |
| [26]C | [27]O | M | P | L | [28]I | A | N | C | E | | S |
| [29]L | E | A | P | | N | | K | | N | [30]M | |
| [31]T | R | I | E | D | | [32]S | | [33]I | D | O | L |
| | | L | R | | [34]S | H | [35]A | R | E | D | |
| [36]E | [37]D | | | | | [38]A | T | O | N | E | S |
| [39]G | O | V | E | R | N | M | E | N | T | | |

## CA Students Conference - AHMEDABAD

**8TH & 9TH DECEMBER 2017**

**PANDIT DINDAYAL UPADHYAY AUDITORIUM, BODAKDEV, AHMEDABAD**

**Organized by:** Board of Studies, ICAI
**Hosted by:** Ahmedabad Branch of Wirc and Wicasa of ICAI
**THEME: "NURTURING VALUES & INTEGRITY- ATTAINING EXCELLENCE IN PROFESSIONAL PURSUITS"**

### DAY-1

| | |
|---|---|
| 08.00 am to 09.00 am | **Registration** |
| 09.00 am to 10.30 am | **Inaugural Session** |
| 10.30 am to 12.15 pm | **Technical Session : I : Topic: Corporate and Economic Laws** - Business Re-Structuring and Mergers and Acquisitions and Compliance issues faced; Insolvency and Bankruptcy Code, 2016: Requirements & Practical Case Studies; Impact of RERA on Promoters, Allottees and Real Estate Agents |
| 12.15 pm to 01.15 pm | **Special Session : I : Interaction and Open House with Board of Studies** |
| 02.15 pm to 03.15 pm | **Special Session : II : Motivational Session** |
| 03.15 pm to 04.45 pm | **Technical session : II : Topic: Direct Taxation**- Black Money Controlling Mechanism Initiatives Taken by Government; ICDS: Is It Required?; Arm's length pricing under Income Tax Act and Transfer Pricing Strategies adopted by MNCs |
| 04.45 pm to 05.30 pm | **Special Session : III** : "How CA Profession helped him to reach on Self-Actualization stage" by Maslow Need Hierarchy Theory |

### DAY-2

| | |
|---|---|
| 08.00 am to 09.00 am | **Registration** |
| 09.00 am to 10.30 am | **Technical Session : III : Topic: Goods and Service Tax: The new Tax Era**- GST and Foreign Trade: Impact of GST on Import and Export of Goods and Services; Sector wise Analysis of GST Implementation; Composition Schemes under GST and its Merits-Demerits. |
| 10.30 am to 11.45 am | **Special Session : IV : Special Address by HR Executives/CFOs/Faculties of IIMs and IITs/IRS/IAS** |
| 11.45 am to 01.15 pm | **Technical Session : IV : Topic: Indian Economy and Current Affairs**- Cyber Frauds and Crimes - Role of Auditor in regards to Forensic Audit; Start-up India's role in Mobilizing Venture Capital Fund from abroad and other perks of Start-ups to Indian Economy; Energy and Environmental Audit: Business tie ups by CA Fraternity with other Professions |
| 02.45 pm to 04.15 pm | **Special Session : V : Special Address by Guests** |
| 04.15pm to 04.45 pm | **Valedictory Session** |

**Students Eligible to attend the Students Conference:** Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Articleship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training. (CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

| | | |
|---|---|---|
| **Registration fees** | ₹ 600/-per student | **Accommodation (if required)** @ ₹ 1,000/- per student per day |
| **Payment Mode** | **Cash/DD/Cheque** to be drawn in favor of Ahmedabad Branch of WIRC of ICAI, payable at Ahmedabad Or Details for Online Registration: www.icaiahmedabad.com; Ph: 079-39893989, 9409381718, 7405913858, 9033262869, 8401547956, 8460664292, 8401886383; Email wicasaahmedabad@icai.org ; Website www.icaiahmedabad.com | |

**CA. Atul Kumar Gupta,** Chairman, BoS; **CA. Mangesh Pandurang Kinare,** Vice-Chairman, BoS**; CA. Dhinal Ashvinbhai Shah,** Central Council Member, Conference Director; **CA. Chintan N. Patel,** Chairman, Ahmedabad Branch & **CA. Purushottamlal Khandelwal,** Chairman, WICASA Ahmedabad Branch, Conference Coordinators.

## CA Students Conference - ROURKELA

**9TH & 10TH DECEMBER 2017**

**BHANJA BHAWAN, ROURKELA**

**Organized by:** Board of Studies, ICAI

**Hosted by:** Rourkela Branch of EIRC & EICASA of ICAI

**THEME: NURTURING VALUES & INTEGRITY- ATTAINING EXCELLENCE IN PROFESSIONAL PURSUITS**

### DAY-1

| | |
|---|---|
| 10.00 am to 10.30 am | **Inaugural Session** |
| 10:30 am to 11:15 am | **Special Session : I : Interaction and Open House with Board of Studies** |
| 11.15 am to 1.00 pm | **Technical Session : I : Topic: Accountancy & Audit**- Roadmap to IND AS; Changes in Accounting Standards; Forensic Audit |
| 1.00 pm to 1.45 pm | **Special Session: II: Topic : Success Stories** |
| 2.30 pm to 4.00 pm | **Technical session : II : Topic: Indirect Taxes**- GST: Time & Place of Supply; GST Returns & Forms; GST: Boon or Bane to a Common Man |
| 4.00 pm to 5.00 pm | **Special Session : III: Topic : Motivational Session** |

### Day 2

| | |
|---|---|
| 10.00 am to 11.30 pm | **Technical Session : III : Topic: Direct Tax**- Income Computation & Disclosure Standards; Income Declaration Scheme: Success & Failure; Provisions in relation to Limitations of Cash Transactions |
| 11.30 am to 12.30 pm | **Special Session : IV: Special Address by HR Executives/CFOs/Faculties of IIMs and IITs/IRS/IAS** |
| 12.30 pm to 1.30 pm | **Special Session : V: Interactive Session: Open Quiz to All** |
| 2.30 pm to 4.00 pm | **Technical Session : IV: Topic : Corporate Law& Economic Environment**- Overview of Insolvency & Bankruptcy Code, 2016; Start Up's-Future of India; Benami Transaction Prohibition Law; Indian Government Approach towards Black Money. |

**Students Eligible to attend the Students Conference:** Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Articleship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training. (CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

| | | |
|---|---|---|
| **Registration fees** | ₹ 500/-per student | **Accommodation (if required)** @ ₹ 500/- per student per day |
| **Payment Mode** | 1.Cash; 2.Pay order/DD/Cheque to be drawn in favour of ROURKELA BRANCH OF ICAI, payable at Rourkela;3.Paytm;4.Online Registration : www.rourkela-icai.org<br>5.Bank Transfer - A/c NAME - ROURKELA BRANCH OF EIRC EICASA; A/C NO - 134910100047831, IFSC CODE-ANDB00001349; Ph- 0661-2664901, 9078679012, 7205131859; Email: icai.rourkela@gmail.com<br>Website: www.rourkela-icai.org | |

**CA. Atul Kumar Gupta,** Chairman, BoS; **CA. Mangesh Pandurang Kinare,** Vice-Chairman, BoS; **CA. Sushil Kumar Goyal,** Central Council Member, Conference Director; **CA. Yogesh Banka,** Chairman, Rourkela Branch & **CA. Rajesh Kumar Agarwal,** Chairman, EICASA Rourkela Branch, Conference Coordinators.

## CA Students Conference - LUDHIANA

**17TH & 18TH DECEMBER 2017**

**ICAI BHAWAN, PAKHOWAL ROAD, LUDHIANA**

**Organized by:** Board of Studies, ICAI
**Hosted by:** Ludhiana Branch of NIRC & NICASA of ICAI
**THEME: NURTURING VALUES & INTEGRITY- ATTAINING EXCELLENCE IN PROFESSIONAL PURSUITS**

| | |
|---|---|
| **DAY-1** | |
| 10.00 am to 10.30 am | **Inaugural Session** |
| 10.30 am to 12.15 pm | **Technical Session : I : Topic: Capital Gains under Income Tax Act** -Transfer of Asset under Capital Gains; Exemption under the Chapter Capital Gains; Taxability of Capital Gain in case of Non-Resident. |
| 12.15 pm to 1.00 pm | **Special Session : I : Interaction and Open House with Board of Studies** |
| 1.00 pm to 01.45 pm | **Special Session: II : Motivational Session on "How CA Profession helped him reach a Self-Actualization stage"** by Maslow Need Hierarchy Theory. |
| 02.30 pm to 04.00 pm | **Technical session: II: Topic: Company Law**- Management Consultancy Services u/s 144; Corporate social responsibility: Myth or reality?; Is Audit Rotation enough for Independence of Auditors? |
| 04.00 pm to 05.00 pm | **Special Session : III** |
| **DAY 2** | |
| 10.00 am to 11.30 am | **Technical Session : III : Topic: Goods and Service Tax-** Concept of Supply; Reverse Charge Mechanism under GST; GST Chargeability in New Scenario. |
| 11.30 am to 12.30 pm | **Special Session : IV : Special Address and Additional Short Sessions by CAs in Industry.** |
| 12.30 pm to 01.45 pm | **Technical Session: IV: Topic: Accounting Standards-** Component Accounting (AS10) – Implementation Issues; Concept of Fair Value in Ind As Regime; Ind AS 37- Provisions, Contingent Liabilities and Contingent Assets |
| 02.30 pm to 04.00 pm | **Technical Session : V: Topic: Audit in the Digital Age(TBC)**- Use of Data Analytics & Artificial Intelligence in Audit; Mitigating risks rising out of Cyber Crimes and Cyber Attacks; Increased Importance of Forensic Audit |

**Students Eligible to attend the Students Conference:** Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Articleship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training. (CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

| | | |
|---|---|---|
| **Registration fees** | ₹ 500/-per student | **Accommodation** (if required) @ ₹ 1000 per student |
| **Payment Mode** | **Cash/DD/Cheque** to be drawn in favour of Ludhiana Branch of NIRC of ICAI, payable at Ludhiana; Phone- 0161-2970563, 7011456082; Email – Icailudhiana@gmail.com;Website Ludhiana-icai.org | |

**CA. Atul Kumar Gupta,** Chairman, BoS; **CA. Mangesh Pandurang Kinare,** Vice-Chairman, BoS; **CA. Sanjay Vasudeva,** Central Council Member, Conference Director; **CA. Dinesh Sharma,** Chairman, Ludhiana Branch & **CA. Sandeep Gupta,** Secretary, Ludhiana Branch of NIRC of ICAI, Conference Coordinators.

## CA Students Conference - ALLAHABAD

**22ND & 23RD DECEMBER 2017**

**PRAYAG SANGEET SAMITI, 12 C, KAMLA NEHRU ROAD, ALLAHABAD, UTTAR PRADESH 211002**

**Organized by:** Board of Studies, ICAI
**Hosted by:** Allahabad Branch of CIRC & CICASA of ICAI
**THEME: NURTURING VALUES & INTEGRITY- ATTAINING EXCELLENCE IN PROFESSIONAL PURSUITS**

### DAY-1

| | |
|---|---|
| 09.00 am to 10.00 am | **Inaugural Session** |
| 10.00 am to 12.00 noon | **Technical Session : I : Topic: Income Tax**- Relaxation for Start Up; Black Money Controlling Mechanism Initiatives taken by Government including Measure to discourage Cash Transactions; Provisions and Penalties related to TDS |
| 12.00 noon to 1.00pm | **Special Session : I : Interaction and Open House with Board of Studies** |
| 1.00 pm to 2.00 pm | **Special Session: II : Motivational Session** on topic **"How CA Profession helps him to reach on Self-Actualisation stage"** by Maslow Need Hierarchy Theory |
| 2.30 pm to 4.30 pm | **Technical session : II : Topic : GST**- GST and its Impact on Indian Economy; Input Tax Credit under GST; Composition Scheme under GST |
| 4.30 pm to 5.30 pm | **Special Session : III** |

### DAY 2

| | |
|---|---|
| 09.30 am to 11.30 am | **Technical Session : III : Topic: Corporate Laws & Allied Law** -Auditors' Roles and Responsibilities under the Companies Act 2013; Audit Report Under CARO under the Companies Act 2013; Benami Transaction (Prohibition) Amendment Act 2016 |
| 11.30 am to 12.30 pm | **Special Session : IV : Special Address by HR Executives/CFOs/Faculties of IIMs and IITs/IRS/IAS** |
| 12.30 pm to 2.30 pm | **Technical Session : IV : Topic :Accounting Standards** - Overview of Ind AS; Ind AS 16- Property Plant and Equipment; Ind AS 12- Income Taxes |
| 3.00 pm to 5.00 pm | **Technical Session : V : Topic: Information Technology**- Cyber Fraud; Role of Forensic Auditor; Cyber Security |

**Students Eligible to attend the Students Conference:** Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Articleship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training. (CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

| | | |
|---|---|---|
| **Fees (without accommodation) *** | ₹ 500/- per student Up to 11th Dec 17 | ₹ 700/- per student After 11th Dec 17 |

**Payment Option:** Cash/Cheque/ DD in Favour of "Allahabad Branch of CIRC of ICAI"; Bank Transfer: Account Holder Name:- Allahabad Branch of CIRC of ICAI; Account No.:-0627201000478; Account Type:- Current Account; Bank & Branch Name:- Canara Bank, Civil Lines, Allahabad; Bank Address:-Canara Bank, Civil Lines, Allahabad-211001; IFSC Code:- CNRB0000627; Phone: +91 - 532 – 2427614, 7080813989;
E-Mail Id: canatcon.ald@gmail.com, allahabad@icai.org; For Registration, please fill the Google online Registration at below mentioned link and Registration form attached in the schedule.
https://docs.google.com/forms/d/e/1FAIpQLSe8PfNPsZOGbAwzzP-PW5_5cDmDncKMtjUl48_8gFBsXyTe6Q/viewform

**CA. Atul Kumar Gupta,** Chairman, BoS**; CA. Mangesh Pandurang Kinare,** Vice-Chairman, BoS**; CA. Manu Agrawal,** Central Council Member, Conference Director**; CA. Kanchan Lal Gupta,** Chairman, Allahabad Branch **& CA. Nitin Mehrotra,** Chairman, CICASA Allahabad Branch, Conference Coordinators.

## National Conference - MUMBAI

**22ND & 23RD DECEMBER 2017**

**BIRLA MATOSHRI SABHAGRUHA, CHURCHGATE, MUMBAI**

**Organized by:** Board of Studies, ICAI
**Hosted by:** WIRC of ICAI
**THEME: NURTURING VALUES & INTEGRITY- ATTAINING EXCELLENCE IN PROFESSIONAL PURSUITS**

| | |
|---|---|
| **DAY-1** | |
| 8.30 am. to 9.30 am | **Registration** |
| 9.30 am to 10.30 am | **Inaugural Session by Eminent Minister** |
| 10.30 am to 11.30 am | **Technical Session: I: Topic -GST-Time & Place of Supply of Goods & Services** |
| 11.30 am to 12.30 pm. | **Special Session : I: Interaction and Open House with Board of Studies** |
| 12.30 pm. to 1.30 pm | **Special Session : II: Topic: GST-Input Tax Credit & Refund** |
| 2.30 pm. to 3.30 pm | **Technical session : II: Topic: Indian Accounting Standards ( IND AS -12, 16,18,101)** |
| 3.30 pm. to 4.30 pm | **Special Session :III: How to do paper presentation** |
| 4.30 pm. to 6.30 pm | **Motivational Seminar by a Prominent speaker** |
| **DAY 2** | |
| 10.00 am.to11.30 am | **Technical Session : III: Session on Opportunities for CAs** |
| 11.30 am to 1.00 pm | **Special Session : IV: Ethical Value in the Profession** |
| 2.00 pm. to 3.00 pm | **Technical Session : IV: Topics: Income Tax-Income Computation and Disclosure Scheme (ICDS)** |
| 3.00 pm to 4.30 pm | **Technical Session: V: Topic: GST – Reverse Charge Mechanism (RCM) & Returns.** |

**Students Eligible to attend the Students Conference:** Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Articleship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training.(CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

| | | |
|---|---|---|
| **Registration fees** | ₹ 600/- per student | Outstation Students, accommodation is available on extra payments, students are requested to inform by sending email to wicasa@icai.in& register in advance |
| **Payment Mode** | **DD/Cheque** to be drawn in favour of WIRC of ICAI, payable at Mumbai Or For online Registration Visit Website www.wirc-icai.org; Phone 022-33671424/17 & Email wircevents@icai.in | |

**CA. Atul Kumar Gupta,** Chairman, BoS; **CA. Mangesh Pandurang Kinare,** Vice-Chairman, BoS & Conference Director; **CA. Vishnu Kumar Agarwal,** Chairman, WIRC of ICAI & **CA. Balkishan Agarwal,** Chairman, WICASA of ICAI, Conference Coordinators.

## Virtual Coaching Class for the students of Intermediate (IPC) for May'18 Examination

Board of Studies is organizing Virtual Classes for the students of Intermediate (IPC) for May'18 Examination on the following subject as per schedule as under:

| Sr. No. | Subjects | Hours to be taught (6 hours X 5 days) | Date of Webcast |
|---|---|---|---|
| 1 | Accounting | 30 | 5.2.2018 – 9.2.2018 |
| 2 | Company Laws and Other Laws | 30 | 12.2.2018 – 16.2.2018 |
| 3 | Indirect Tax | 30 | 19.2.2018 – 23.2.2018 |
| 4 | Taxation | 30 | 25.2.2018 – 2.3.2018 |

The Webcast will be of 6 hours per day for 5 days on the dates mentioned in the schedule.

The fee for attending the Webcast at Regional Office and Branch is ₹1000/- per subject. The students will be required to register online and pay the fee online at link to be uploaded on the Institute website.

The students registered for the above classes will be able to communicate online with the faculty during the Webcast session and can resolve their queries pertaining to the subjects.

**Director, Board of Studies**

## CA Students Conference - AURANGABAD

**30TH & 31ST DECEMBER, 2017**

**TAPADIYA NATYA MANDIR**

**Organized by:** Board of Studies, ICAI

**Hosted by:** Aurangabad Branch of WIRC & WICASA of ICAI

**THEME: NURTURING VALUES & INTEGRITY -ATTAINING EXCELLENCE IN PROFESSIONAL PURSUITS**

### DAY-1

| | |
|---|---|
| 10.00 am to 10.30 am | **Inaugural Session** |
| 10.30 am to 12.15 pm | **Special Session - Presentation by Collector from Pune** |
| 12.15 pm to 01.45 pm | **Technical Session : I**<br>**Topic: Wealth creation through Capital markets & India's upgrading by International agency vs. Ground reality** |
| 02.30 pm to 04.30 pm | **Technical session : II**<br>**Topics: RERA - a game changer & Bankruptcy Law** |

### DAY 2

| | |
|---|---|
| 10.00 am to 11.30 am | **Special Session : I**<br>**Interaction and Open House with Board of Studies** |
| 11.30 am to 12.30 pm | **Technical Session : III**<br>**Topic: Cashless economy - Reality or Dream? & Demonetization - Has it unearthed black money?** |
| 12.30 pm to 01.45 pm | **Special Session: IV**<br>**Topic: Motivational Session** |
| 02.30 pm to 04.00 pm | **Technical Session : IV**<br>**Topic: GST Road Ahead** |

**Students Eligible to attend the Students Conference:** Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Articleship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training. (CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

| | | |
|---|---|---|
| **Registration fees** | ₹ 800/- per student | Accommodation (if required) @ ₹ NA per student |
| **Payment Mode** | **Cash/DD/Cheque** to be drawn in favor of **CA Student Conference for CA Students (WIRC)**, payable at Aurangabad; Ph: 9960588885/9970588885; Email: aurangabad@icai.org Website www.icai.org | |

**CA. Atul Kumar Gupta,** Chairman, BoS; **CA. Mangesh Pandurang Kinare,** Vice-Chairman, BoS; **CA. Anil Satyanarayan Bhandari,** Central Council Member, Conference Director; **CA. Alkesh Rawka,** Chairman, Aurangabad Branch & **CA. Rohan Achalia, Chairman,** WICASA Aurangabad Branch, Conference Coordinators

# National Talent Hunt and 17th All India Quiz Contest 2017-18

## A KNOWLEDGE ENRICHING EVENT


**Date:** 16th December, 2017 (Saturday)

**Time:**

**Quiz Contest :** 9.00 a.m. to 1.00 p.m.

**National Talent Hunt :** 2.00 p.m. to 8.00 p.m.

Events will be followed by Lunch and Dinner

**Venue**

NDMC Convention Centre, New Delhi Municipal Council, Palika Kendra, Sansad Marg, New Delhi-110 001 (Opp. Jantar Mantar, Near Park Hotel, Connaught Place, New Delhi).

The Winners of the Regional level contests are eligible to participate in the National Talent Hunt and 17th All India Quiz Contest.

20 participants will contest at National Talent Hunt representing 5 Regions.

Special grooming sessions for contestants from 13th to 15th December, 2017.

## Prizes

- **Awards and Certificates for all winners.**
- **Cash prizes for National Talent Hunt**

| First Prize | Second Prize | Third Prize |
|---|---|---|
| ₹ 31,000/- | ₹ 21,000/- | ₹ 11,000/- |

Students are requested to join the programme in large numbers.

The winners of National Talent Hunt and All India Quiz Contest, 2017-18 will have opportunity to showcase their talents at SAFA Elocution and Quiz Contests to be held in Kathmandu, Nepal in January 2018.

Director, Board of Studies

# Residential Programme on Professional Skills Development at Centre of Excellence, Hyderabad

The Board of Studies is pleased to announce the next batch of ICAI Four Weeks Residential Programme on Professional Skills Development as below:

| Venue | Participant | Fees | Date | Online Registration |
|---|---|---|---|---|
| Centre of Excellence (CoE), Hyderabad | Men | ₹ 60,000/- | 27th December, 2017 to 23rd January, 2018 | https://resource.cdn.icai.org/47026bos36814.pdf |

This programme aims to help the Chartered Accountancy students and newly qualified Chartered Accountants in imbibing the professional skills required for effective functioning in business organisations and the profession. The Programme environment focuses on development of communication skills, personal qualities, interpersonal and teamwork skills, problem solving skills, leadership skills etc,.

## Salient Features of the Programme:

- Emphasis on Soft Skills, Communication Skills and Personality Development.
- Exemption from payment of Fees to Top 10 Rank holders.
- Part of Practical Training.
- No need for Separate Management and Communication Skills(MCS) forming part of Advanced Integrated Course on Information Technology and Soft Skills (AICITSS).
- Special Session on Group Discussion & Interview.
- Preparation of Project and Presentation Skills.
- Building Team Spirit.

**Students who have passed Chartered Accountancy IPCC/ PCC/ PE- II examination and pursuing last year of Practical training or completed Practical training are invited to join the course for this batch. Recently qualified Chartered Accountants are also welcome to join the course.**

## Student's opinion

CoE is a place to learn from best of speakers who fill the session with loads of learning and bundle of creativity. It is a great place to learn from students and professional with diverse backgrounds. A must-do course for all CA Students.

CA. Kevin Dharmesh Gandhi
from Western Region
(Participant of 37th batch)

It was an amazing experience and the faculties were exceptionally good. It bridges the gap between a CA student and a professional. It influences us to be creative and think out of box.

Ms. Parnika Poddar
from Eastern Region
(Participant of 40th batch)

For online registration, you can proceed with 'Board of Studies Announcements' https://www.icai.org/new_category.html?c_id=345 under the 'Students' tab on the Home Page of the ICAI's website www.icai.org. For any query, you can write us at ashokdua@icai.in or may also contact us on 0120-3045935 and Mobile No.9868879548.

**Director, Board of Studies**

# The Institute of Chartered Accountants of India (ICAI)

# ICAI Commerce Wizard-2017: A Talent Search Test in Commerce

*Organised By:* **Career Counseling sub-group under BoS, ICAI**

For Details and Registration please visit the Exclusive Website for ICAI Commerce Wizard, 2017: ***icw.icai.org***

The Commerce Talent Search Test called as Commerce Wizard -2017 is a diagnostic test that measures the concept understanding ability of a student. Unlike regular tests which try only to find out how much a child knows, this test measures how well a student has understood the concepts.

**Eligibility: Students appearing in class X/XI/XII examination**

**Online Registration**

**Registration Fees : ₹100/- upto 31st Dec. 2017**
**Late Registration Fees : ₹150/- 01st Jan. to 05th Jan. 2018**

The Commerce Wizard will be conducted by means of in two levels i.e. LevelI (Online) & Level II (Online/Pen & Pencil test) in English language for Students studying in class X/XI/XII & B.Com/BBA /BMS/Aliied Subjects Part I, Part II & Part III:

| Class | No. of Questions | Duration | Subjects | Mode | Negative Marking | Max. Marks | Pattern |
|---|---|---|---|---|---|---|---|
| X | 100 | 1 Hr 15 Min | (I) Social Studies (Economics) (II) Mathematics (III) Business Awareness (IV) Aptitude | Online/Pen & Pencil | 0.25 | 100 | Objective - type (Multiple Choice) questions |
| XI | 100 | 1 Hr 15 Min | (I) Business Studies (II) Accountancy (III) Economics (IV) Aptitude | Online/Pen & Pencil | 0.25 | 100 | |
| XII | 100 | 1 Hr 15 Min | (I) Business Studies (II) Accountancy (III) Economics (IV) Aptitude | Online/Pen & Pencil | 0.25 | 100 | |
| B.Com/BBA /BMS/ Allied Subjects Part I, Part II & Part III Examination | 100 | 1 Hr 15 Min | (I) Business Studies (II) Accountancy (III) Economics/ Financial Studies (IV) Aptitude | Online/Pen & Pencil | 0.25 | 100 | |

**Date Timings for the aforesaid test :**

| Class X/XI/XII & B.Com./BBA /BMS/Allied Subjects Part I, Part II & Part III | Level-I (Online test) 7th January, 2018 (Sunday) | Level-II Test : Online or Pen Pencil Mode in the designated test centre 21st January, 2018 (Sunday) **For Class X/XI/XII** 10:30 am. To 11.45 a.m. **For B.Com/BBA/BMS/Allied Subjects Part I/Part II/Part III** 3.00 p.m. to 4.15 p.m. |
|---|---|---|
| Part I | 11.45 AM to 1.00 PM | |
| Class XI /B.Com/BBA/BMS/Allied Subjects Part II | 2.00 PM to 3.15 PM | |
| Class XII/B.Com/BBA/BMS/Allied Subjects Part II | 4.15 PM to 5.30 PM | |

**Prizes for Participants**

**Level-I Test**

- All participants In Level-1 test will receive a Participation Certificate.

**Level-I Test**

- 1st Rank holder will be awarded with Rs 75,000/- for Class X, Class XI& Class XII, B.Com/BBA/BMS/Allied Subjects Part I, Part II & Part III separately, if multiple winners are there, the prize amount will be shared by them. If more than 50 joint rank holders for the same, the awardee will at least awarded with the cash prize of Rs 2,000/-.
- 2nd Rank will be awarded with Rs 50,000/-for Class X, Class XI & Class XII, B.Com/BBA/BMS/Allied Subjects Part I, Part II & Part III separately, if multiple winners are there, the prize amount will be shared by them. If several joint rank holders for the same are there, the awardee will at least awarded with the cash prize of Rs 1,500/-
- 3rd Rank will be awarded with Rs 25,000/-for Class X, Class XI& Class XII, B.Com/BBA/BMS/Allied Subjects Part I, Part II & Part III separately, if multiple winners are there, the prize amount will be shared by them. If several joint rank holders for the same are there, the awardee will at least awarded with the cash prize of Rs 1,000/-.
- Top 250 consolation prizes will be awarded worth Rs 500/- for Class X, Class XI & Class XII B.Com/BBA/BMS/Allied Subjects Part I, Part II & Part III separately.
- Appreciation certificate to the candidates who have secured 50% marks in the aforesaid online test.
- Participation Certificate will be given to each participant appeared for the Level-II Test.

**Other Important Dates:**

**Award Ceremony:** Award Ceremony will be held at Delhi NCR/Mumbai tentatively in the month of February, 2018

**ICAI/Test Management Committee reserves the right to change in any of the modalities cited above.**

Deputy Convener
*Career Counseling sub-group under BoS, ICAI*

Convener
*Career Counseling sub-group under BoS, ICAI*

**For any Query please contact :**
**Secretary**
**Career Counselling sub-group under BoS, The Institute of Chartered Accountants of India**
ICAI Bhawan, A-29, Sector 62, Noida (U.P.) - 201309
Telephone (O): 0120-3876871, 886 Email: ccc.events@icai.in, ccc.secretary@icai.in

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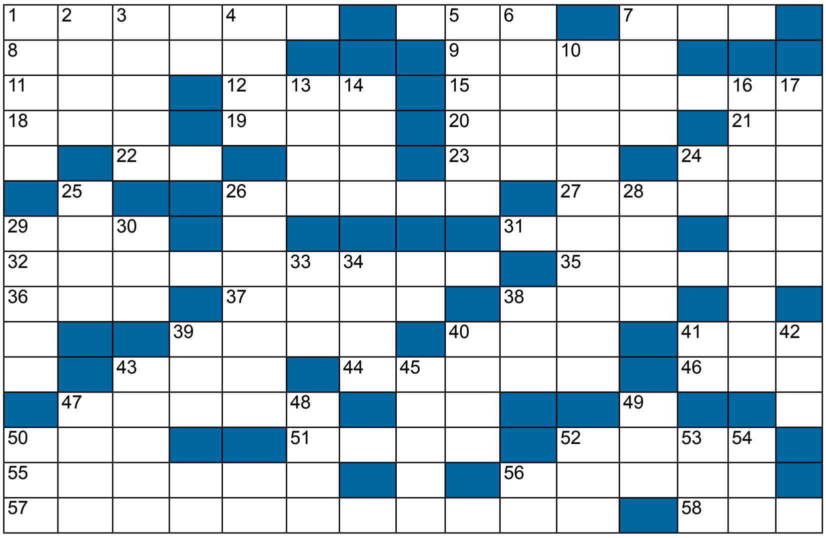
# CROSSWORD - DECEMBER 2017



## ACROSS

1. Which kind of mathematics does the computer use in operations?
7. ------ can become subscriber for incorporating a company through its Karta.
8. A cumulative frequency graph.
9. VAT credit can be taken in GST regime as ………..credit.
11. Leading Stock Exchange in India.
12. ___is used worldwide to compare the income levels in different countries.
15. Sabeer Bhatia is the co-founder of _______ (1996).
18. A modern continuation of Greenwich Mean Time based on Earth's rotation.
19. One of India's major import items.
20. A form of communication.
21. Opposite of Yes.
22. For example, in Latin.
23. A ___ race is an endless, self-defeating, or pointless pursuit.
24. A revenue officer dealing with direct taxes.
26. In technical analysis, a ……….. is formed when the tops (resistance level) and bottoms (support levels) change in opposite direction.
27. Vigilant
29. A public sector bank in India.
31. A governmental agency in India responsible for co-ordination of statistical activities in India, and evolving and maintaining statistical standards.
32. Under integrated system of accounting, cost and__________accounts are kept in the same set of books.
35. A _____line is a line drawn over pivot highs or under pivot lows to show the prevailing direction of price.
36. ___ Act, 2005 mandates timely response to citizen requests for government information.
37. Extinct flightless bird.
38. Tender, proffer
39. __'s paradise: State of delusive contentment or false hope.
40. One of the ways in which elasticity can be measured.
41. Help
43. _ Jones : a stock market index in USA.
44. Discharges, diffuses
46. A statutory body for establishing uniform and high standards of medical education in India.
47. Hair
50. Unrefined rock
51. Nags, goads
52. A ---- and motion study : a business efficiency technique.
55. In financial lease, the ……... has to bear insurance, maintenance and other related costs.
56. When the ___ gets tough, the tough get ___. (same word)
57. GST is a -------------based consumption tax.
58. Trick, dupe

## DOWN

1. Stock dividend is also called ……… shares.
2. Tax payable on inter-State supply of goods and services.
3. Sibling's daughter.
4. __ rate: the rate at which the Reserve Bank of India lends money to commercial banks in the event of shortfalls of funds.
5. On land
6. Arcade
7. Which of the primary language for static web site design?
10. A branch of mathematics dealing with the collection, analysis, interpretation, presentation, and organization of data.
13. Long for
14. Walk heavily
16. A fundamental analyst compares the ………. value with the current market price.
17. Robbed
24. Latin clarifier
25. The term allocation refers to assignment or allotment of an entire item of cost to a particular cost ----.
26. The ___ Key will launch the start button.
28. Title of respect
29. Pension schemes are regulated by ………
30. An American franchised networking organization.
33. One of the highest-ranking executive positions in an organization.
34. An --- mind is devil's workshop.
    Land mobile radio system (LMRS), also called public land mobile radio or private land mobile radio, is a wireless communications system intended for use by terrestrial users in vehicles (mobiles) or on foot (portables).
38. __: A bus-based transit system services at metro-level capacities.
39. an enemy
40. Targets
41. Be
42. Vague, dull
43. Window _____(ing): Actions taken to improve the appearance of a company's financial statements.
45. Ability, power
47. A decision support tool : Decision ___.
48. Noticed
49. Roman numeral for 502.
50. Aged
52. A unit of weight
53. A corporate organization that owns or controls production of goods or services in two or more countries other than their home country.
54. Self pride
56. Opposite of come.

If undelivered, please return to: The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi-110104