THE INSTITUTE OF
Company Secretaries of India
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

EXECUTIVE PROGRAMME

(NEW SYLLABUS)

CORPORATE AND MANAGEMENT ACCOUNTING

(Relevant for Students appearing in June, 2020 Examination

MODULE II, PAPER 5

This supplement is for Executive programme (New Syllabus). The students are advised to read their Study Material along with these updates. These academic updates are to facilitate the students to acquaint themselves with the amendments in various laws and regulatory prescriptions upto December 2019, applicable for June, 2020 Examination. The students are advised to read all the relevant regulatory amendments made and applicable upto December 2019 along with the study material. In the event of any doubt, students may write to the Institute for clarifications at academics@icsi.edu

The students who do not have the latest version of the study material may refer the latest study material relevant for June 2020 session available on the weblink: https://www.icsi.edu/media/webmodules/FINAL_CMA_BOOK_10022020.pdf

Lesson 6

Page no. 208- before Manner of Determination of Managerial remuneration insert the following:

Meaning of Effective Capital as per Explanation I in section IV of Part II of Schedule V of Companies Act, 2013

“Effective Capital “ means the aggregate of the paid-up share capital(excluding share application money or advances against shares); amount, if any for the time being standing to the credit of share premium account; reserves and surplus (excluding revaluation reserve); long-term loans and deposits repayable after one year (excluding working capital loans, overdrafts, interest due on loans unless funded, bank guarantee, etc., and other short-term arrangements) as reduced by the aggregate of any investments (except in case of investment by an investment company whose principal business is acquisition of shares, stock, debentures or other securities), accumulated losses and preliminary expenses not written off.

Illustration on Managerial Remuneration

Ms. Jyoti is the Managing Director of Wise (India) Ltd., incorporated under the Companies Act , 2013. Board of Directors of the company presents the following financial data extracted from the company’s financial statements as at 31st Of March 2019.

Particulars	INR (In Crores)
Authorised Equity Share Capital	60
Paid up Equity Share Capital	10
Debenture Redemption Reserve	10
Securities Premium Account	20
Profit and Loss (loss)	(10)
Revaluation Reserve	20

Based on the provisions of the Companies Act, 2013 decide the maximum remuneration payable to Ms. Jyoti for the financial year 2018-19.

Solution:

Due to losses in the financial year 2018-19, Ms. Jyoti can be paid remuneration on the basis of “effective capital”

Computation of effective capital :

Particulars	INR(In Crores)
Paid up Equity Share Capital	10
Debenture Redemption Reserve	10
(not specifically excluded from definition of “effective capital”)	
Securities Premium Account	20

Profit and Loss (loss)	(10)
Revaluation Reserve	
(specifically excluded from definition of "effective capital")	
Effective Capital	30

As company's effective capital is between 5 to 100 Crores, Ms. Jyoti can be paid an annual remuneration of 84 lacs i.e. monthly of 7 lacs.

If company passes a special resolution , remuneration more than this can be paid to Ms. Jyoti.

Page no. 212- Definition (add the following definitions after Reportable segment)

4) **Enterprise revenue** is revenue from sales to external customers as reported in the statement of profit and loss.

5) **Segment revenue** is the aggregate of

  a) the portion of enterprise revenue that is directly attributable to a segment,
  b) the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and
  c) revenue from transactions with other segments of the enterprise.

6) **Segment expense** is the aggregate of

  a) the expense resulting from the operating activities of a segment that is directly attributable to the segment, and
  b) the relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment, including expense relating to transactions with other segments of the enterprise.

Note: However, SEGMENT REVENUE/EXPENSE does not include

  a) Extraordinary items as defined in AS-5
  b) Interest or dividend (including earned/incurred on loans to other segment) unless the operations of the segment are primarily of a financial nature
  c) Gains on sales of investments or on extinguishments of debt (Capital gain/loss) unless the operations of the segment are primarily of a financial nature.
  d) General administration expenses, head office expenses and other expenses that arise at the enterprise level and relate to the enterprise as a whole.

7) **Segment Assets** are those operating assets that are employed by a segment in its operating activities and that either are directly attributable the segment or can be allocated to the segment on a reasonable basis.

8) **Segment liabilities** are those operating liabilities that result from operating activities and that either are directly attributable the segment or can be allocated to the segment on a reasonable basis.

(If the segment result of a segment includes interest expense, its segment liabilities include the related interest-bearing liabilities and vice versa.)

(Segment liabilities do not include income tax liabilities and vice versa.)

Similarly, if depreciation segment expenses then related assets comes under segment assets.

Lesson 8

Page no. 262- under the head CARO, 2016 (Replace Point 4 with the following)

4. Reporting Requirement under Each Clause

A brief of reporting requirements under each of the above clauses is hereunder:

A. Fixed Assets

i. Whether the company maintains proper records showing full particulars including details of quantity and situation of the fixed assets

ii. Whether physical verification of the fixed assets is conducted by the management at reasonable intervals

iii. Whether any material discrepancies were noticed on physical verification and if so, whether it has been accounted for in books of account

iv. Whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof

B. Inventory

i. Whether at reasonable intervals the management has conducted physical verification of inventory

ii. Whether any material discrepancies were noticed on physical verification and if so, whether it has been accounted for in books of accounts

C. Loans given by Company

Whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,

i) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;

ii) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

iii) If the amount is overdue, state the total amount overdue for more than 90 days, and whether reasonable steps have been taken by the company for recovery of the principal and interest.

D. Loan to Directors and Investment by the Company

Whether the loans and guarantees to directors are in order and in compliance with the limits prescribed.

E. Deposits

In case the company has accepted deposits,

i) whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions be stated;

ii) if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal, whether the same has been complied with or not?

F. Cost Records

Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of Section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.

G. Statutory Dues

The auditor shall report whether the company

i) is regular in depositing undisputed statutory dues including Provident Fund, employees' State Insurance, Income-tax, Sales-tax, Service Tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and

ii) if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

iii) Where dues of income Tax or sales Tax or service Tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

H.Repayment of Loans

If the company has defaulted in repayment of loans or borrowings to financial institutions, banks, government, debenture-holders, etc. then the amount and period of default is to be reported.

I. Utilisation of funds

Whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported

J. Reporting of Fraud

Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

K. Approval of Managerial Remuneration

Whether the limits prescribed under the Section 197 read with Schedule V of the Company's Act 2013 for managerial remuneration have been adhered to. If not, the amount of excess amount involved and steps for recovery being taken have to be reported.

L. Nidhi Company

In case of a Nidhi company, whether the following have been complied with:

i. Maintain net owned funds to deposit in the ratio of 1:20 to meet out the liability

ii. Maintain 10% unencumbered term deposits to meet out the liability

M. Related Party Transactions

Whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards

N. Private placement of Preferential Issues

Whetherthecompanyhasmadeanypreferentialorprivateallotmentsofsharesanddebentures.Also,whether the amount Raised has been utilized towards the purpose for which it was raised.. If not, provide the details in respect of the amount involved and nature of non-compliance

O. Non-Cash Transactions

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with.

P. Registration under RBI Act

Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

Reasons to be stated for unfavourable or qualified answers.-

(1) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.

(2) Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

Lesson 10

Page no. 314- Replace the head Introduction till Standard setting process by the following:

Meaning of Accounting Standards

The expression ‘Accounting Standards’ is made up of two words- ‘Accounting’ and ‘Standards’. Let us, therefore, first understand the meaning of these two words. We have already understood the meaning of accounting. The term ‘Standard’ means ‘***a generally accepted model or an ideal’***. The expression ‘Accounting Standards’, therefore, means *generally accepted models or ideals for accounting*.

Accounting standards may be defined as*the* ***written policy documents*** *issued by* ***an expert Accounting Body*** *or* ***Government*** *or* ***other regulatory bodies*** *covering the aspects of* ***recognition, measurement, presentation and disclosure of the transactions and other events in the financial statements****. Let us understand this definition as under:*

a) ***Accounting standards are the written policy documents****: The word ‘Policy’ means a course of action adopted as advantageous or expedient. These are written documents which are advantageous to be adopted by the enterprises in reflecting the effect of the transactions and other events.*

b) ***Accounting standards are issued by the expert Accounting body, Government or other regulatory bodies****: In India, the expert accounting body to issue the accounting standards is the Institute of Chartered Accountants of India (ICAI). Government also issues the accounting standards. For example, the Central Government issues the accounting standards to be adopted by the companies under the Companies Act, 2013 in the preparation and presentation of their financial statements. Similarly, the regulatory body like Insurance and Regulatory Development Authority of India (IRDA) and Reserve Bank of India (RBI) also issue accounting standards.*

c) ***Accounting Standards deal with the recognition, measurement, presentation and disclosure of transactions and other events****:*

(i) ***Recognition of transactions and other events****: Recognition is the process of incorporating an item in the Balance Sheet and statement of Profit and Loss. It involves the depiction of an item in words and by a monetary amount and inclusion of that amount in the totals of the Balance Sheet and Statement of Profit and Loss. The Accounting standards tell us which item to recognize in the Balance sheet and Statement of Profit and Loss.*

(ii) ***Measurement of the transactions and other events****: Accounting standards also provide guidance as to what monetary amount should be put to the transaction and events i.e. measurement or quantification of the items of transactions and events. For example, Accounting Standard (AS) 10 ‘Property, Plant and Equipment’ provides that for the initial recognition of an item of PPE, the costs of the items to be considered are* (a)Purchase price less trade discount and rebates; (b)Non-refundable purchase taxes; (c) Import duties; (d)Directly attributable cost to bring the asset in the location and condition for operation as intended by the management.

(iii) ***Presentation of transactions and other events**: Accounting Standards also deal with the manner of presentation of transactions and other events in the Balance Sheet and Statement of Profit and Loss. For Example, paragraphs 8 to 17 of Accounting Standard 3 'Cash Flow Statements' deal with the manner of presentation of operating activities, investing and financing activities in the cash flow statement.*

(iv) ***Disclosure of transactions and other events**: Accounting standards also deal with the manner of disclosure of transactions and other events. For example, paragraph 37 of the AS 10 provides that in the financial statements, gross and net carrying amounts of the items of PPE at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements should be disclosed.*

It may be noted that almost all the Accounting Standards deal with recognition, measurement, presentation and disclosure of transactions and other events.

2. Applicability of Accounting Standards

Which enterprises are the Accounting Standards applicable to?

As per paragraph 3.3. of the 'Preface to the Statements of Accounting Standards', accounting standards are intended to apply to enterprises (whether organized in ***corporate, co-operative or other forms***) engaged in ***commercial, industrial or business activities*** irrespective of whether it is ***profit oriented or it is established for charitable or religious purposes***. However, the Accounting Standards will not apply to the enterprises which carry on only those activities which are not of commercial, industrial or business nature (e.g. an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.

Thus, it may be stated that the Accounting Standards apply to:

(a) Sole proprietorship concerns/individuals

(b) Partnership firms

(c) Societies

(d) Trusts

(e) Hindu Undivided families

(f) Association of Persons (AOP)

(g) Body of individuals (BOI)

(h) Co-operative societies

(i) Companies and LLPs

Which types of financial statements or reports are the Accounting Standards applicable to?

As per paragraph 3.3 of the 'Preface to the Statements of Accounting Standards', Accounting Standards apply to the ***general-purpose financial Statements*** and other financial reporting which are subject to attest functions of the members of the ICAI. As per paragraph 3.4 of the said preface, the term 'General purpose Financial Statements' includes 'Balance Sheet', 'Statement of Profit and Loss', 'A Cash Flow Statement' (where applicable), and Statements and explanatory notes which form part thereof issued for the use of various stakeholders, government and their agencies and the public.

STANDARDS SETTING PROCESS

Paragraph 5 of the 'Preface to the Statements of Accounting Standards' provides for the procedure of issuing Accounting Standards in India which may be explained as under:

Step 1: **Determination of the broad areas**: The ASB determines the broad areas in which the accounting standards need to be formulated and the priority in regard to the selection thereof.

Step 2: **Assistance to the ASB by the study group**: In the preparation of the accounting standards, the ASB will be assisted by the study groups constituted to consider the specific subjects. In the formulation of the study group, the provision is made for wide participation by the members of the ICAI and others. Step 3: **Preparation of the preliminary draft of Accounting Standard by the Study group**: The draft of the proposed accounting standard will normally include the following(a) Objective of the standards(b) Scope of the standard (c) Definition of the terms used in the standard(d) Recognition and measurement principles wherever applicable(e)Presentation and disclosure requirements.

Step 4: **Consideration of the preliminary draft by the ASB**: The ASB will consider the preliminary draft prepared by the Study group and if any revision of the standard is required on the basis of the deliberations, *the ASB will make the same or will refer the same to the study group*.

Step 5: **Circulation of the draft of Accounting Standard by the ASB to the members of ICAI and specified bodies:** The ASB will circulate the draft of the standard to the members of the ICAI and to the specified bodies such as MCA, CAG, CBDT, ICAI, ICSI, ASSOCHAM, CII, FICCI, RBI, SEBI, SCOPE, IBA and any other body considered relevant by the ASB keeping in view the nature of the standard.

Step 6: **Meeting of the ASB with the representatives of the specified bodies to finalize the exposure draft**: The ASB will hold a meeting with the representatives of the specified bodies to ascertain their view and on the basis of the comments received and the views of the representatives of the specified bodies, the ASB will finalize the exposure draft of the proposed accounting standard.

Step 7: **Issue of exposure draft for comments by the members of the ICAI and the public and specified bodies:** The exposure draft [ED] of the proposed standard will be issued for the comments by the members of the ICAI and the public. The ED will be specifically sent to the specified bodies as listed above and the stock exchanges and the other interest groups as considered appropriate.

Step 8: **Submission of the final draft by the ASB to the Council of the ICAI**: After taking into consideration the comments received, the ASB will finalize the draft of the standard and the same will be submitted to the council of the ICAI.

Step 9: **Consideration of the draft by the council of the ICAI and issue of the Standard by the ICAI**: The council of the ICAI will consider the draft of the proposed standard and if found necessary, it will revise the same in consultation with the ASB and then the standard will be issued by the ICAI.

Lesson 12

Page no. 350- Replace Phase of adoption till Voluntary adoption by the following:

Applicability of Indian Accounting Standards

a) The Government of India notified the Indian Accounting Standards (Ind ASs) in the Gazette of India on 16th February, 2015 which contained the application by Indian companies as per the roadmap given therein as under:

b) ***For companies other than Banking companies, Non-banking Financial Companies (NBFCs) and Insurance companies:***

(i) *For the Accounting period beginning on or after 1st April, 2016*: The following companies were required to prepare their financial statements by adopting Indian Accounting Standards (Ind ASs):

(a) Companies whose equity or debt securities are listed or are in the process of listing on any stock exchange either in India or out of India and having the net worth of Rs. 500 crore or more;

(b)Unlisted companies having the net worth of Rs. 500 crore or more; and

(c)Holding companies, subsidiary companies, joint venture or associate companies of the companies mentioned at (a) or (b) above.

Comparatives for the above periods shall be for the period ending on 31st March, 2016 or thereafter.

(ii)For the Accounting period ending on or after 1st April, 2017: The following companies were required to prepare their financial statements by adopting Indian Accounting Standards (Ind ASs):

(a)Listed companies having net worth of less than Rs. 500 crores;

(b)Unlisted companies having net worth of Rs. 250 crore or more but less than Rs. 500 crores; and

(c)Holding, subsidiary, joint venture and associate companies of the companies mentioned at (a) or (b) above.

Comparatives for the above periods shall be for the period ending on 31st March, 2017 or thereafter.

Once a company starts applying Indian Accounting Standards (Ind ASs) for the preparation of the financial statements based on the mandatory criteria specified above, it will have to prepare the financial statements in compliance with the Indian Accounting Standards (Ind ASs) for all the subsequent years even if the criterion later on does not apply to it. A company may voluntarily apply the Indian Accounting Standards (Ind ASs) for the preparation of the financial statements for the accounting period starting on or after 1st April, 2015. However, such a company cannot subsequently revert back to the preparation of financial statements by adopting the Accounting Standards specified under the Companies (Accounting Standards) Rules, 2006.

It may be noted that the net worth of the company will be considered based on the audited financial statements of the company concerned as at 31st March, 2014 or based on the first audited financial statements of the company concerned as at any date after 31st March, 2014.

Once the Indian Accounting standards (Ind ASs) are required to be applied in the preparation of the financial statements by a company, the same will apply to both the stand-alone financial statements and consolidated financial statements.

Companies whose securities are listed or are in the process of being listed on SME Exchanges will continue to apply the existing Accounting Standards specified under the Companies (Accounting Standards) Rules, 2006.

Companies which are not required to mandatorily follow Indian Accounting Standards (Ind ASs) are required to follow the existing Accounting Standards specified under the Companies (Accounting Standards) Rules, 2006 unless they voluntarily choose to apply Indian Accounting Standards (Ind ASs).

For Non-banking Financial Companies (NBFCs):

(i)For the Accounting period beginning on or after 1st April, 2018: The following NBFCs will be required to adopt Ind ASs:

(a)NBFCs having net worth of Rs. 500 crore or more; and

(b)Holding, subsidiary, joint venture and associate companies of the above companies.

The comparatives will be for the period ending on 31st March, 2018 or thereafter

(ii) For the Accounting period beginning on or after 1st April, 2019: The following NBFCs will be required to follow Ind ASs:

(a)Listed NBFCs having net worth of less than Rs. 500 crores;

(b)Unlisted NBFCS with net worth of Rs.250 crore or more but with net worth of less than Rs. 500 crores; and

(c)Holding, subsidiary, joint venture and associate companies of the above companies.

The comparatives will be for the period ending on 31st march, 2019 or thereafter.

Note: The net worth for the above purpose will be computed as per the audited financial statements for the year ended 31st March, 2016 or the first audited financial statements thereafter.

For the Scheduled commercial banks (excluding regional rural banks) and insurance companies

The following will be required to apply Indian Accounting Standards (Ind ASs) for preparing their financial statements for the period ending beginning on or after 1st April, 2018:

(a)Scheduled Commercial banks (excluding regional rural banks);

(b)All India term lending refinancing institutions (i.e. Exim Bank, NHB, NABARD, SIDBI);

(c)Insurers/insurance companies; and

(d) Holding, subsidiary, joint venture and associate companies of the above companies.

The comparatives will be given for the period ending on 31st March, 2018 or thereafter.

Page no. 355- Add Point no. 16. after Ind AS 115

16. Ind AS 116, Leases

The objective of this Ind AS is to set out the principles for recognition, measurement, presentation of disclosure of leases so that the lessees and lessors provide the relevant information in a manner that faithfully represent those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

To apply this standard, an entity shall consider the terms and conditions of contracts and all relevant facts and circumstances. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

Page no. 362- Replace the Comparison of Ind AS with existing Indian GAAP with the following:

Comparison of Ind AS 7 with AS 3

S. No.	Bases of Comparison	Ind AS 7 "Statement of Cash Flows"	AS 3 "Cash Flow Statements"
(i)	Bank overdraft repayable on demand	Ind AS 7 specifically provides that the bank borrowings are generally classified as financing activities. However, bank overdraft repayable on demand is treated as part of cash and cash equivalents.	AS 3 is silent on this aspect.
(ii)	Treatment of cash payments in specific cases	Ind AS 7 provides for the treatment of cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary c0urse of business as cash flows from operating activities. Further, treatment of cash receipts from rent and subsequent sale of such assets as cash flow from operating activities is also provided.	AS 3 does not contain such requirements.
(iii)	New examples of cash flows arising from financing activities	Ind AS 7 includes the following new examples of cash flows arising from financing activities: (a)Cash payments to owners to acquire or redeem the entity's shares; (b)cash proceeds from mortgages; (c)Cash payments by the lessee for the reduction of the outstanding liability relating to a finance lease.	AS 3 does not contain such examples.
(iv)	Adjustments of the profit or loss for the effects of undistributed profits of the associates and non-controlling interests	Ind AS 7 specifically requires the adjustment of the profit or loss for the effects of 'undistributed profits of associates and non-controlling interests' while determining the net cash flows from operating activities using the indirect method.	AS 3 does not contain such requirements.
(v)	Cash flows associated with extraordinary activities	Ind AS 7 does not contain this requirement.	AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from, operating, investing and financing activities.

(vi)	Investing activities	Ind AS 7 requires that only the expenditures results in a recognized asset in the balance sheet are eligible for classification as investing activities.	AS 3 does not contain such requirements.
(vii)	Disclosure of the amount of cash and cash equivalents in specific situations	Ind AS 7 requires and entity (except an investment entity) to disclose the amounts of cash and cash equivalents and other assets and liabilities in the subsidiaries or other businesses over which control is obtained or lost. It also requires to report the aggregate amount of cash paid or received as consideration for obtaining or losing control of such subsidiaries or other businesses in the Statement of Cash Flows, net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.	AS 3 does not contain such requirements.
(viii)	Cash flows arising from changes in ownership interest in subsidiaries	Ind AS 7 requires to classify cash flows arising from changes in ownership interest in subsidiaries that do not result in a loss of control as cash flows from financing activities.	AS 3 does not contain such requirements.
(ix)	Investments in subsidiaries associates and joint ventures (investees)	Ind AS 7 mentions the use of equity or cost method while accounting for an investment in an associate, joint venture or a subsidiary. It also specifically deals with the reporting of interest in an associate or a joint venture using equity method.	AS 3 does not contain such requirements.
(x)	Use of different terminology and translation of cash flows of a foreign subsidiary	Ind AS uses the term ‘functional currency instead of ‘reporting currency’ (as in AS 3). It also deals with the translation of cash flows of a foreign subsidiary.	AS 3 uses the term ‘reporting currency’. AS 3 does not deal with the translation of cash flows of a foreign subsidiary.
(xi)	Disclosures	Ind AS 7 requires more disclosures as compared to AS 3.	As 3 requires less disclosures as compared to Ind AS 7.

Comparison of Ind AS 7 with IAS

S. No.	Bases of Comparison	IAS 7	Ind AS 7
(i)	Treatment of interest paid and interest and dividend received	IAS 7 gives an option to classify the interest paid and interest and dividend received as an item of operating cash flows.	Ind AS 7 does not provide such an option and requires these items to be classified as an item of financing activity and investing activity respectively.
(ii)	Treatment of dividend paid	IAS 7 gives an option to classify the dividend paid as an item of operating activity.	Ind AS 7 requires dividend paid to be classified as an item of financing activity only.

Page 363- Replace the matter on Property Plant and equipment- Comparison of Ind AS with existing Indian GAAP

Comparison of Ind AS 16 with AS 10

S. No.	Bases of comparison	Ind AS 16	AS 10
(i)	Property, plant and equipment retired from active use and held for sale	Ind AS 16 does not deal with the assets held for sale because the treatment of such assets is covered under Ind AS 105 "Non-current assets held for sale and Discontinued operations".	AS 10 deals with the accounting for items of fixed assets retired from active use and held for sale.
(ii)	Stripping costs in the production phase of a surface mine	Ind AS 16 provides guidance on measuring the stripping cost in the production phase of a surface mine.	AS 10 does not contain this guidance.

Comparison of Ind AS 16 with IAS 16

There is no major difference between the two.

Comparison of Ind AS 116 with AS 19

Bases of comparison	Ind AS 116	AS 19
(i) Coverage	Ind AS 116 deals with specific provisions related to leases of	AS 19 does not deal with all types of leases.

	land and building.	
(ii) Residual value	Ind AS 116 does not define residual value	AS 19 defines residual value.
(iii) Inception of lease and commencement of lease	Ind AS 116 defines and distinguishes between inception of lease and commencement of lease.	AS 19 neither defines nor distinguishes between the two.
(iv) Recognition of finance lease	As per Ind AS 116, lessee should recognize finance lease as assets and liabilities at the commencement of lease.	As per AS 19, the lessee should recognize the finance lease at the inception of lease.
(v) Upward revision of unguaranteed residual value	Ind AS 116 permits the upward revision of unguaranteed residual value during the lease term.	AS 19 prohibits such upward revision.
(vi) Initial direct costs	Ind AS 116 provides that the initial direct costs incurred by the lessor in case of an operating lease should be included in the carrying amount of the leased asset and amortized as an expense over the lease term.	AS 19 provides that such costs should be charged off by the lessor or amortized over the lease term.
(vii) Sale and leaseback transactions n case of finance lease	Ind AS 116 also requires that the excess of sale proceeds over the carrying amount of the asset should be deferred and amortized but it does not specify the method of amortization.	AS 19 provides that the excess of sale proceeds over the carrying amount of the asset should be deferred and amortized over the lease term in proportion to depreciation of the leased asset.
(viii) Single lease accounting model for lessee	Ind AS 116 now has a single lease accounting model for the leassee by eliminating the difference between operating lease and finance lease i.e. the lessee has to reocgnise the lease liability with a corresponding ‘right of use’ asset.	As 19 prescribes for the lessee lease accounting depending on the type of lease i.e. operating lease and finance lease.

Comparison of Ind AS 116 with IFRS 16

Bases of comparison	IFRS 16	Ind AS 116
(i) Presentation in Balance sheet	‘Right of use’ assets may be presented either separately or within the same line item within which the corresponding owned	‘Right of use’ assets and lease liabilities may be presented either on the balance sheet or separately in the notes from

	asset would be presented. Similar option is available for presentation fo lease liability.	other assets and other liabilities.
(ii) Presentation in income statement	The Income Statement recognition shall comprise of the amortization of the right of use asset and interest expense related to the lease liability.	Similar to IFRS.
(iii) Presentation in the Statement of Cash Flows	Repayment of interest expense may be presented either as an operating activity or as a financing activity.	Repayment of interest expense will be presented only as a financing activity.
(iv) Exemption	Recognition and measurement exemption are available for low value leases.	Similar to IFRS.
(v)Variable lease payments	Reassessment of lease liability is required if the change in the lease payment occurs as a result of change in the index or rate.	Similar to IFRS.

Page no. 364- Replace matter on Revenue with the following:

Comparison between Ind AS 115 and AS 7 and AS 9

Bases of comparison	Ind AS 115	AS 7 and AS 9
(i)Framework of revenue recognition	Ind AS 115 gives a framework of revenue recognition within the standard. It specifies the core principle for revenue recognition which requires the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	AS 7 and AS 9 do not provide any such principle to fall upon in case of doubt.
(ii)Comprehensive guidance on recognition and measurement of	Ind AS 115 provides comprehensive guidance on how to recognize and measure multiple elements of contracts with a	AS 7 and AS 9 do not provide any such guidance on this aspect.

multiple elements of contracts with a customer	customer.	
(iii)Coverage	Ind AS deals with all types of performance obligation contracts with customers. However, it does not deal with interest and dividend dealt with in the standard on financial instruments.	AS 7 deals only with the revenue from construction contracts which measures the revenue at the consideration received/receivable. AS 9 deals with only the revenue from sale of goods, rendering of services and income form royalty, dividend and interests.
(iv)Measurement of revenue	Ind AS 115 measures the revenue at the transaction price i.e. the consideration to which the entity expects to be entitled in exchange for the transfer of the promised goods or services, excluding the amounts collected on behalf of third parties.	AS 9 provides for the measurement of revenue at the amount of charges made to the customers or clients for the goods transferred or services supplied or the rewards arising from the use of resources by others. AS 7 measures the revenue at the consideration received or receivable.
(v)Recognition of revenue	Ind AS 115 provides that the revenue is roecgnised when the control is transferred to the customer.	AS 9 provides that revenue is roecgnized upon the transfer of significant risks and rewards of ownership to the clients. AS 7 provides that the revenue is reocgnized when the outcome of a construction contract can be reliably estimated.
(vi)Capitalization of costs	Ind AS 115 provides guidance on the recognition of costs to obtain and fulfill a contract as an asset.	AS 7 and 9 do not deal with capitalization of such costs.
(vii)Guidance on service concession arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof.	ASs do not provide such guidance
(viii)Disclosure requirements	Ind AS 115 contains more disclosure requirements as	AS 7 and AS9 contain very less disclosure requirements as

	compared to AS 7 and 9.	compared to Ind AS 115.

Comparison of Ind AS 115 with IFRS 15

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognizing revenue. Ind AS 115 provides that the penalties shall be dealt with as per the substance of the contract. Where the penalty is inherent in the determination of transaction price, it should form part of variable consideration, otherwise the same shall not be considered for determining the consideration and the consideration shall be treated as fixed.

Lesson 13

Page no. 376: Add the following under concept of cost

CONCEPTS OF COST

Cost:

As a noun:- The Chartered Institute of Management Accountants (CIMA), London defines cost as "the amount of expenditure (actual or notional) incurred on or attributable to a specified thing or activity".

As a verb:- "To ascertain the cost of a specified thing or activity".

Page no. 377: Add after Cost Accountancy

Cost Units

It is a unit of product, service or time (or combination of these) in relation to which costs may be ascertained or expressed.

We may for instance determine the cost per tonne of steel, per tonne kilometre of a transport service etc.

Cost units are usually the units of physical measurement like number, weight, area, volume, length, time and value.

A few typical examples of cost units are given below:

Industry or Product	Cost Unit Basis
Automobile	Number
Cement	Tonne/per bag etc.
Chemicals	Litre, gallon, kilogram, tonne etc.
Brick-making	1000 bricks
Steel	Tonne
Transport	Passenger kilometer
Hospitals	Patient day
Electricity/Power	Kilowatt-hour(KwH)

Cost Centres

It is defined as a location, person or an item of equipment (or group of these) for which cost may be ascertained and used for the purpose of Cost Control.

Cost Centres are of two types;

Personal Cost Centre: It consists of a person or group of persons e.g. Mr.X, doctor, accountant, engineer etc.

Impersonal Cost Centres: It consists of a location or an item of equipment (or group of these) e.g. canteen, boiler house etc.

Cost Centres in a manufacturing concern:

Two main types are indicated as below:

Production Cost Centre: It is a cost centre where raw material is handled for conversion into finished product. Here both direct and indirect expenses are incurred e.g. Machine shops, welding shops assembly shops etc.

Service Cost Centres: It is a cost centre which serves as an ancillary unit to a production cost centre e.g. Power house, Plant maintenance centres, Payroll processing department, HRD etc.

Cost Objects

Cost object is anything for which a separate measurement of cost is required. Cost object may be a product, a service, a project, a customer, a brand category, an activity, a department or a programme etc.

Cost Drivers

A Cost driver is a factor or variable which effect level of cost. Generally it is an activity which is responsible for cost incurrence. Level of activity or volume of production is the example of a cost driver. An activity may be an event, task, or unit of work etc.

Cost Control

It is a process to ensure that appropriate action is taken if costs exceed a pre-set allowance (as budgeted/estimated) or actions to be taken if costs are expected to exceed the expected levels.

Cost Reduction

It may be defined “as the achievement of real and permanent reduction in the unit cost of goods manufactured or services rendered without impairing their suitably for the use intended or diminution in the quality of the product.

Cost reduction implies the retention of the essential characteristics and quality of the product and thus it must be confined to permanent and genuine savings in the cost of manufacture, administration, distribution and selling brought about by elimination of wasteful and inessential elements from the design of the product and from the techniques carried out in connection therewith.

Page no. 380: Add after Scope of Cost and Management Accounting

Limitations of Cost Accounting

Like other branches of accounting, cost accounting is also having certain limitations. The limitations of cost accounting are as follows:

1. **Expensive:** It is expensive because analysis, allocation and absorption of overheads require considerable amount of additional work, and hence additional money.
2. **Requirement of Reconciliation:** The results shown by cost accounts differ from those shown by financial accounts. Thus preparation of reconciliation statements is necessary to verify their accuracy.
3. **Duplication Work:** it involves duplication of work as organization has to maintain two sets of accounts i.e. Financial Accounts and Cost Accounts.
4. **Inefficiency:** Costing system itself does not control costs but its usage does.

Factors to be considered before Installation of a Cost Accounting System:

Before installing a cost accounting system, knowledge of the following are desirable:

1. Know the objectives of the organization to install cost accounting system.

2. Know the nature of the product and the industry in which the organization is operating.

3. Know the organization hierarchy and their needs of information.

4. Know the production process

5. Synchronization of information required in different departments.

6. Methods of maintenance of cost records.

7. Statutory compliance and audit.

Lesson 17

Page no. 465 –under Level of Management and Reporting include the following in the end.

Higher Level of Management Reports

- Are more summarized
- Are less frequent
- Are more in numbers

Lower Level of Management Reports

- Are more detailed
- Are more frequent
- Are less in numbers

Information Needs According to Management Level

Level of Management	Main Issues	Information Sources	Time Horizon	Level of aggregation	Information recency
Top-level management	Strategic	Mainly External	Long term	Summarized	Past as well as present
Middle-level management	Tactical	External/Internal	Medium	Intermediate	Somewhat current
Lowe-level management	Operational	Mainly internal	Short term	Detailed	Very current

Page no. 468- under forms of Presentation of Information add the following in the end

Attributes of Information

For information to be useful to managers, it must possess certain attributes.

Accuracy	Must be true and correct and must accurately describe the item or event
Timeliness	Available when it is needed and without excessive delay

Relevance	Pertains to the situation at hand. Information relevant at one time may not be relevant at another if it does not add to the knowledge needed by a decision-maker
Completeness	Provides the user with all the details needed to understand a solution. Complete information (that is, certainly) is rarely available
Frequency	Prepared or presented to users often enough to be up-to-date
Time horizon	Oriented toward past, present or future activities and events
Scope	Broad or narrow in coverage of an area of interest
Origin	May originate from sources within the organization or from external sources
Form of presentation	Tables of numbers or graphic displays of information are the most common written or printed forms. May also include verbal presentation.

Lesson 18

Page no. 477: Add after Cost Behaviour and CVP Analysis

Marginal Cost Equation

Contribution theory explains the relationship between the variable cost and selling price. It tells us that selling price minus variable cost of the units sold is the contribution towards fixed expenses and profit.

If the contribution is equal to fixed expenses, there will be no profit or loss and if it is less than fixed expenses, loss is incurred.

Since the variable cost varies in direct proportion to output, therefore if the firm does not produce any unit, the loss will be there to the extent of fixed expenses.

These points can be described with the help of following marginal cost equation:

$S - V = C = F \pm P/L$

Where, S= selling price, V= variable cost, C= contribution, F= fixed cost, P/L= profit/loss

Lesson 19

Page no. 519: Add after Generally Acceptable Methodologies of Valuation

CONCEPTUAL FRAMEWORK OF VALUATION

The term ‘valuation’ implies the task of estimating the worth/value of an asset, a security or a business. The price an investor or a firm (buyer) is willing to pay to purchase a specific asset/security would be related to this value.

Obviously, two different buyers may not have the same valuation for an asset/business as their perception regarding its worth/value may vary; one may perceive the asset/business to be of higher worth (for whatever reason) and hence may be willing to pay a higher price than the other. A seller would consider the negotiated selling price of the asset/business to be greater than the value of the asset/business he is selling.

In the case of business valuation, the valuation is required not only of tangible assets(such as plant and machinery, land and building,office equipment, etc.) but also of intangible assets(say, goodwill, brands patents, trademark and so on); equally important in this regard is the value of the human resources that run/manage the business.

The following concepts of value are explained in this section:(i) book value. (ii) market value, (iii) intrinsic value, (iv) liquidation value, (v) replacement value, (vi) salvage value, (vii) value of goodwill (viii) going concern value and (ix) fair value.

(i) **Book Value:** Book value refers to the financial sum/amount at which as asset is shown in the balance sheet of a firm. Generally, the sum is equal o the initial acquisition cost if an asset less accumulated depreciation. Accordingly, this mode of valuation of assets is as per the going concern principle of accounting. In other words book value of an asset shown in balance does not reflect its current sale value.

In the context of business, book value refers to total book value of all valuable assets (excluding fictitious assets, such as accumulated losses and unwritten part of deferred revenue expenditures, like advertisement, preliminary expenses, cost of issue of securities) less all external liabilities (including preference share capital). The concept, in literature, is also referred to as net worth.

(ii) **Market Value:** Market value refers to the price at which as asset can sold in the market. The concept can, evidently, be applied with respect to tangible assets only; intangible assets (in isolation), more often than not , do not have any sale value. Viewed from the perspective of the business unit as a whole, it refers to the aggregate market value (as per stock market quotation) of all equity shares outstanding, Being so, it is possible to use this concept only in the case of listed companies.

(iii) **Intrinsic/Economic Value:** As per concept, in the case of business intended to be purchased, its valuation is equivalent to the present value of incremental future cash inflows after taxes likely to accrue to the acquiring firm, discounted at the relevant risk adjusted discount rate, as applicable to the acquired business. Clearly, the present value indicates the maximum price at which the business can be acquired.

(iv) **Liquidation Value:** As the name suggests, liquidation value represents the price at which each individual asset can be sold if business operations are discontinued in the wake of liquidation of the firm. In operational terms, the liquidation value of a business is equal to the sum of (i) realisable value of assets and (ii) cash and bank balances minus the payments required to discharge all external liabilities. In general, among all measures of value, the liquidation value of an asset/or business is likely to be the least.

(v) **Replacement Value:** Normally, replacement value is the cost of acquiring a new asset of equal utility and the usefulness. The concept is normally useful in valuing tangible assets such as office equipment and furniture and fixtures, which do not contribute towards the revenue of the business firm.

(vi) **Salvage Value:** Salvage value represent realisable scrape value on the disposal of assets after the expiry of their economic useful life. The concept may be employed to value assets such as plant and machinery, contributing towards revenues of the firm. Salvage value should be the net of removal costs.

(vii) **Value of Goodwill:** Viewed in the economic sense, the business firm can be said to have 'real' goodwill in case it earns rate of return(ROR) on invested funds higher than the ROR earned by the similar firms(with the same level of risk). In the operational terms, goodwill results when the firm earns excess (may be referred to as 'super') profits. Defined in this way the value of goodwill is equivalent to the present value of super profits (likely to accrue, say for 'n' number of years in future), the discount rate being the required rate of return applicable to such business firms.
In the case of mergers and acquisition decisions, the value of goodwill paid is equal to the net difference between the purchase price paid for the acquiring business (say, Rs 100 crore) and the value of assets acquired net of liabilities the acquiring firm has undertaken to pay for (say, Rs.90 crore; the value of goodwill is Rs 10 crore.

(viii) **Going Concern Value:** This concept applies to a business firm as an operating unit. The going concern value of a firm is based primarily on how profitable its operations would be as a continuing entity.
The procedure for establishing the going concern value usually consists of two steps. First, a projection is made about maintainable income from business as a going entity. Second, the maintainable income is translated into a going concern value by applying a suitable capitalisation factor. To illustrate, suppose the maintainable income of Rs.10,00,000 is projected for a firm and a capitalisation rate of 15 percent is deemed appropriate. The going concern value of the firm then would be:

$$\text{Rs.}\ \frac{10,00,000}{0.15} = \text{Rs. } 66,66,667$$

(ix) **Fair Value:** The concept of 'fair' value draws heavily on the value concepts enumerated above; in particular, book value, intrinsic value and market value; the fair value is hybrid in nature and often is the average of these three values.

Lesson 21

Page 577: Replace the Grant date with following-

Grant Date

Grant date is the date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have ***a shared understanding of the terms and conditions of the arrangement.*** At the grant date, the entity confers on the counterparty ***the right to cash, other assets or equity instruments*** of the entity provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date on which that approval is obtained.

Example (i) on grant date: [Grant of share options subject to approval of shareholders]: On 1st July, 2019, X Ltd. offered new share options to employees of the company but this share option was subject to the approval by the shareholders. The shareholders approved the grant of share options on 1st August, 2019. What is the grant then?

The grant date is the date on which the shareholders approved the grant of share options i.e.1st August, 2019.

Example (ii) on grant date [Approval of the general meeting obtained but the approval of counterparty not obtained]: X Ltd. has initiated a share-based payment arrangement in its Board meeting and directed the supervisors to communicate the agreement to the employees. Determine the grant date under the following three cases:

Employees have not yet given his/her consent either implicitly or explicitly even though the company has taken the approval of the agreement in the general meeting;

Though the approval of the agreement in the general meeting has been granted, the grant date cannot be determined since the employees have not given their consent.

Page 583

Compariosn between Ind AS 102 and ICAI Guidance Note on ESOPs

Similarities between Ind AS 102 and ICAI guidance note (GN): The basic concepts underlying the Ind AS 102 and ICAI guidance note are the same. Both require the entity to recognize the value of share-based payment awards in the financial statements when services are received which is determined at the grant date for equity settled share-based payment issued to employees. The share-based payment awards are an integral component of a total compensation package and thus, an entity should recognize an expense for share-based payment awards just as it does for cash compensation.

Key differences between Ind AS 102 and ICAI Guidance Note on ESOPs

The following are the key differences between the two:

Ind AS 102	ICAI GN on ESOPs
Scope	
Ind AS 102 applies to both employees and non-employees share-based payments.	The ICAI guidance note is limited in its scope as it covers accounting for only employees share-based payments. Non-employee share-based payments are covered by other Accounting Standards e.g. AS 10 "Property, Plant and Equipment".
Identification of equity settled V. cash-settled plans	
The identification of equity settled and cash-settled plans is based on the ***entity's obligation under the plan***. An equity settled share-based payment transaction is defined as the share-based payment transaction in which the entity (a)receives goods or services as consideration for its own equity instruments (including shares or shares options); or (b)receives goods or services but has no obligation to settle the transaction with the supplier. A cash-settled share-based payment transaction is a share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the equity instruments (including shares or shares options) of the entity or another group entity**.** **For example**, let us assume that an entity is required to transfer equity share(s) of its parent to its employees for the services. As per the ESOP, the obligation to transfer the share is on the entity and not its parent. In this case, the ESOP plan is treated as cash-settled because the parent's shares are not the entity's own equity instruments. However, if the obligation to transfer shares is with the parent, the ESOP plan is treated as equity settled for the entity.	The identification of equity settled and cash settled plan is based on the ***employee's entitlement*** as against the entity's obligation under the plan. Equity settled plan is a plan under which the employees receive the shares. Under cash settled plan, the employees receive cash based on the price or value of the enterprise's shares. **For example**, let us assume that an entity is required to transfer the equity shares of its parent to its employees for the services received. Since, the employees get shares, the plan is likely to be treated as equity settled. ***This is irrespective of whether the obligation to transfer the shares is on the parent or on the entity.***
Measurement	
For equity settled share-based payment transactions, an entity measures the goods or	The guidance note is similar to the Ind AS 102 except that an entity is permitted to use

services received **directly** at the fair value of the goods or services received if the fair value of the goods or services received can be estimated reliably. If the fair value of the goods or services received cannot be measured reliably, the entity measures the fair value of the goods or services received indirectly by reference to the fair value of the equity instruments granted. For example, the fair value of the employee services cannot be reliably estimated. In the case of transactions with the employees, the fair value of the equity instruments must be used except in extremely rare cases, where it is not possible to measure this fair value reliably in which case, the intrinsic value of the equity instruments may be used. Transactions with the employees are measured at the date of the grant whereas those with the non-employees are measured at the date on which the goods or services are received. For cash settled share-based payment transactions, an entity measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity remeasures the liability at each reporting date and at the date of settlement, with any change in fair value recognized in profit or loss.	the intrinsic value method as an alternate to the fair value method for measuring the employee share-based payment. However, the entity using the intrinsic value method is required to give the fair value disclosures.
Unidentifiable goods or services	
The entity measures the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of the identifiable goods or services received (or to be received). The entity measures the unidentifiable goods or services received at the grant date. However, for cash settled transactions, the liability is remeasured at the end of each reporting period until it is settled.	There is no specific guidance on accounting for unidentifiable goods or services
Graded vesting	
An entity needs to determine the vesting period for each portion of the option separately and amortize the compensation cost of each such portion on a straight-line basis over the vesting period of that portion.	The ICAI guidance note provides the following two options in this regard: -Determine the vesting period for each portion of the option separately and amortize the compensation cost of each such portion on

The option to recognize the expense over the service period for the entire award period is not available.	a straight-line basis over the vesting period of that portion. The amount of the employee compensation cost is accounted for and amortized on a straight-line basis over the aggregate vesting period of the entire option (i.e. over the vesting period of the last separately vesting portion of the option. However, the amount of the employee compensation cost recognized at any date should at least equal the fair value or the intrinsic value, as the case may be, of the vested portion of the option at that date.
Group and treasury share transactions	
Ind AS 102 deals with various issues arising from such transactions. It requires the subsidiary whose employees receive such compensation, to measure the services received from its employees as per Ind AS 102 with a corresponding increase in equity as a contribution from the parent. Ind AS 102 also clarifies the accounting for group cash settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholders has the obligation to settle the award.	Detailed guidance on issues arising from such transactions is not available. The common practice is that the entity whose employees receive such compensation does not account for any compensation cost because it does not have any settlement obligation.

Lesson 22

Page 589

Price Earning (P/E) Ratio method

The P/E ratio (also known as the P/E multiple) is the method most widely used by finance managers, investment analysts and equity shareholders to arrive at the market price of an equity share.

The application of this method primarily requires the determination of earnings per equity share.

EPS = Net earnings available to equity shareholders during the period ÷ number of equity shares outstanding during the period.

The EPS has to then be multiplied by the P/E ratio to arrive at the market price of equity share (MPS).

MPS = EPS x P/E ratio

Illustration

In the current year, a corporate firm has reported a profit of Rs. 65 lakh, after paying taxes @ 35 percent. On close examination, the analyst ascertains that the current year's income includes; (i) extraordinary income of Rs 10 lakh and (ii) extraordinary loss of Rs. 3 lakh. Apart from existing operations, which are normal in nature and are likely to continue in the future, the company expects to launch a new product in the coming year.

Revenue and cost estimates in respect of the new product are as follows:

	Rs.(lakh)
Sales	360
Material cost	15
Labour cost (additional)	10
Allocated fixed costs	5
Additional fixed costs	8

From the above information determine the market price per equity share (based on future earnings). For this purpose, you are provided the following date:

(i) The company has 1,00,000 11% Preference shares of Rs. 100 each, fully paid-up.

(ii) The company has 4,00,000 Equity shares of Rs.100 each, fully paid-up.

(iii) P/E ratio is 8 times.

Solution:

Determination of Market Price of Equity Share

	Rs.
Future maintainable profits after taxes	78,00,000
Less: preference dividends (1,00,000 x Rs 11)	11,00,000
Earnings available to equity shareholders	67,00,000

Divided by number of equity shares	4,00,000
Earnings per share (Rs 67 lakh / 4 lakh	16.75
Multiplied by P/E ratio (number of times)	8
Market price per share (Rs 16.75 x 8)	134

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