

Name – Vivek Dhanaraj Chavan.

Role – Finance Management Internship.

Finance Management Internship Assignment.

Section 1: Financial Statements & Adjustments.

Given Data for Company ABC (FY ending Dec 31, 2023):

- Revenues: ₹7,50,000
- Cost of Goods Sold: ₹4,50,000
- Operating Expenses: ₹1,80,000
- Interest Expense: ₹20,000
- Tax Rate: 30%
- Additional Scenario: ₹15,000 bad debts (uncollectible receivables)

A. Calculations before Bad Debt.

1. Gross Profit = Revenues – COGS = $7,50,000 - 4,50,000 = ₹3,00,000$
2. EBIT = Gross Profit – Operating Expenses = $3,00,000 - 1,80,000 = ₹120,000$
3. EBT = EBIT – Interest Expense = $1,20,000 - 20,000 = ₹1,00,000$
4. Tax = 30% of 1,00,000 = ₹30,000
5. Net Income = $1,00,000 - 30,000 = ₹70,000$

B. Adjusted Financials after Bad Debt

- Additional Expense: Bad Debt Expense = ₹15,000
- New Operating Expenses = $1,80,000 + 15,000 = ₹1,95,000$
- EBIT = $3,00,000 - 1,95,000 = ₹1,05,000$
- EBT = $1,05,000 - 20,000 = ₹85,000$
- Tax = $30\% \times 85,000 = ₹25,500$
- Net Income = $85,000 - 25,500 = ₹59,500$

Impact: Net income reduced by ₹10,500. Accounts Receivable reduced by ₹15,000. Cash flow unaffected immediately, but future inflows reduced.

C. Importance of Accurate Receivables Accounting

1. Ensures assets and profits are not overstated.
2. Reflects accurate income for shareholders and tax purposes.
3. Provides early warning signals of customer credit risks.
4. Supports audit and compliance.
5. Prevents tax disputes and financial misstatements.

Section 2: Transfer Pricing & Intercompany Transactions.

Parent: Singapore (IP + contracts), Subsidiary: India (R&D + operations).

A. Transfer Pricing Methods

1. Cost Plus Method (CPM): Costs + markup, suitable for routine manufacturing.
2. Transactional Net Margin Method (TNMM): Compares net margins of similar companies.
3. Profit Split Method (PSM): Splits combined profits based on contributions.

B. Recommended Method

Profit Split Method (PSM) is most suitable since both India and Singapore contribute uniquely (R&D vs IP). TNMM may be used as a secondary benchmark.

C. Risks of Misapplication

1. Risk of double taxation from adjustments by tax authorities.
2. Penalties and reputational risks due to mispricing.
3. Possible operational disruptions if transfer pricing is challenged.

D. Compliance Framework

- Draft clear intercompany agreements.
- Maintain Local File & Master File documentation.
- Annual benchmarking & review.
- Keep detailed contemporaneous records.
- Consider Advance Pricing Agreements (APA).
- Regular internal testing & audit preparation.

Section 3: Funding Cross-Border Subsidiaries.

A. Funding Options

1. Equity Infusion: Complies with FEMA/FDI rules, strengthens net worth, no repayment, but dilutes ownership.
2. Intercompany Loan: Quick liquidity, interest deductible, but needs RBI/FEMA filings and TDS.
3. Subvention Payment: Parent supports subsidiary, flexible but tax risks exist.
4. Service Agreements: Cost-sharing, must be arm's length, subject to GST/TDS.

B. Recommended Approach

Equity infusion is most practical for startups as it provides growth capital without repayment. Short-term intercompany loans may supplement working capital.

C. India Regulatory Filings

Equity Infusion:

- Board resolutions & ROC filings.
- RBI/FEMA reporting (e.g., FC-GPR).
- Bank KYC.

Intercompany Loans:

- Loan agreement & board approvals.
- FEMA/ECB compliance & RBI filings.
- TDS on interest payments.
- Transfer pricing documentation.

Section 4: Finance Compliance Calendar (FY 2025–26)

India

Monthly:

- GST filing & payment
- PF/ESI contributions
- Professional Tax
- TDS deposit

Quarterly:

- TDS return filing
- PF/ESI returns

Annual:

- Income Tax return
- GST annual return & reconciliation
- ROC annual filings (financials, returns)
- Statutory & Tax Audit (if applicable)
- FEMA/RBI filings (if applicable)
- Transfer Pricing documentation

Singapore

- ACRA Annual Return filing
- IRAS Corporate Income Tax filing
- GST filings (if applicable)
- AGM and corporate governance compliance
- Transfer Pricing documentation (if cross-border transactions significant)