

CMA STUDENT E-Bulletin

VOL 09 | NO. 06 | JUNE 2024

An Initiative of Directorate of Studies



ICMAI
THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament
www.icmai.in

About the Institute

The Institute of Cost Accountants of India (ICMAI) is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, organizes professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants increasingly contributing towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

The Institute is headquartered in Kolkata having four Regional Councils at Kolkata, Delhi, Mumbai and Chennai, 117 Chapters in India and 11 Overseas Centres. The Institute is the largest Cost & Management Accounting body in the world with about 1,00,000 qualified CMAs and over 5,00,000 students pursuing the CMA Course. The Institute is a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The Institute is also an Associate Member of ASEAN Federation of Accountants (AFA) and member in the Council of International Integrated Reporting Council (IIRC), UK.

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Institute Motto

असतोमा सदगमय
तमसोमा ज्योतिर् गमय
मृत्योर्मा मृतं गमय
ॐ शान्ति शान्ति शान्तिः

From ignorance, lead me to truth
From darkness, lead me to light
From death, lead me to immortality
Peace, Peace, Peace

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Editorial Office

The Institute of Cost Accountants of India

CMA Bhawan

12, Sudder Street, Kolkata - 700016

✉ studies.ebulletin@icmai.in



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ICMAI's Latest Initiatives in Education and Training

Dear Students,

I am pleased to share the latest updates and initiatives undertaken by the Training & Educational Facilities Committee to enhance the learning experience for our students under the Syllabus 2022:

- 1. Model Questions with Answers (MQPs):** MQPs for all levels (Foundation, Intermediate, and Final) have been uploaded on the Institute's website. These resources are designed to aid students in their exam preparation.
- 2. MCQ-Based Online Portal:** The Directorate of Studies has developed an exclusive MCQ-based online portal for all levels. This portal is intended to help students perform smoothly in their examinations.
- 3. Online Classes:** Regular online classes for all papers of Foundation, Intermediate, and Final levels are being conducted by the Directorate of Studies. Reputed subject matter experts have been engaged to deliver these classes.
- 4. Recorded Classes:** Recorded sessions are available on our YouTube channel, with links provided on the Institute's website to facilitate student access.
- 5. Updated Study Materials:** Students have been provided with updated study materials. Applicable amendments are uploaded as supplementary resources from time to time to ensure thorough exam preparation.
- 6. New TV Channel:** ICMAI has launched a new TV channel exclusively for the students of the Institute in association with JIO TV. The Directorate of Studies has been regularly providing selective online lecture sessions in this platform to facilitate the students.
- 7. CMA Student E-Bulletin:** Since January 2024, the CMA Student E-Bulletin has been published

FROM THE DESK OF CHAIRMAN

Training & Educational Facilities Committee
The Institute of Cost Accountants of India

CMA Vinayaranjan P.

regularly in a new format with attractive features to keep our students informed and engaged.

- 8. Online Workshops:** Various online workshops such as Power BI, SAP S/4HANA, and Advanced Excel have been organized to support Final Level students in their studies and professional development.
- 9. Webinar on 'Success Mantra for CMA Exam':** To assist students in preparing for CMA examinations, a webinar on 'Success Mantra for CMA Exam' was conducted by the Training & Educational Facilities Committee.
- 10. CMA Faculty Lounge:** We are excited to introduce the CMA Faculty Lounge, a vibrant and dynamic space where faculty members, educators, and industry experts can share insights, best practices, and resources related to management accounting and allied areas. This initiative aims to foster a culture of continuous learning and innovation, empowering our faculty members to stay abreast of the latest trends, developments, and advancements in professional education.
- 11. ICMAI & NPTEL Initiative:** ICMAI has started a new initiative with NPTEL (National Programme on Technology Enhanced Learning), which is a joint venture of the IITs and IISc, funded by the Ministry of Education (MoE), Government of India. NPTEL is the largest online repository in the world of courses in engineering, basic sciences, and selected humanities and social sciences subjects. IIT Madras through NPTEL will carry out this initiative with ICMAI to promote Cost & Management Accounting education across the Globe through skill enhancement courses.

We are committed to providing the best possible resources and support to our students, ensuring a robust and enriching educational journey.

Warm regards,

CMA Vinayaranjan P.
July 10, 2024

CMA FOUNDATION COURSE

Syllabus 2022

Topic

Fundamentals of
Business Laws -

Module 4:
Negotiable
Instruments
Act, 1881

Business
Communication -

Module 5:
Business
Communication

FOUNDATION

Paper-1

Fundamentals of
Business Laws and
Business
Communication
(FBLC)

SECTION – A: FUNDAMENTALS OF BUSINESS LAWS

MULTIPLE CHOICE QUESTIONS (MCQ)

1. The promissory note must be in _____
 - (a) stamping
 - (b) writing
 - (c) both (a) and (b) above
 - (d) none of the above
2. A bill of exchange contains a/an
 - (a) unconditional undertaking
 - (b) unconditional order
 - (c) conditional undertaking
 - (d) conditional order
3. Cheque is a
 - (a) promissory note
 - (b) bill of exchange
 - (c) both (a) and (b) above
 - (d) None of the above
4. The term 'Negotiable instrument' is defined in the N. I. Act, 1881, under section
 - (a) 12
 - (b) 13
 - (c) 13A
 - (d) 2(d)
5. The term 'negotiation' in section 14 of the N. I. Act, 1881 refers to
 - (a) the transfer of a bill of exchange, promissory note or cheque to any person, so as to constitute the person the holder thereof
 - (b) the payment by a bank on a negotiable instrument after due verification of the instrument
 - (c) the bargaining between the parties to a negotiable instrument
 - (d) all of the above
6. If an instrument may be construed either as a promissory note or bill of exchange, it is
 - (a) a valid instrument
 - (b) an ambiguous instrument
 - (c) a returnable instrument
 - (d) none of the above
7. If a minor draws, endorses, delivers or negotiates an instrument, such instrument binds
 - (a) all parties to the instrument including the minor
 - (b) only the minor and not other parties to the instrument
 - (c) all parties to the instrument except the minor
 - (d) none of the above
8. In a promissory note, the amount of money payable
 - (a) must be certain
 - (b) may be certain or uncertain
 - (c) is usually uncertain
 - (d) none of the above
9. A cheque is crossed when it bears, either with or without the words "not negotiable".
 - (a) specially
 - (b) general
 - (c) restrictive
 - (d) none of the above
10. Features of a negotiable instrument as per the N. I. Act, 1881 is / are
 - (a) free from defects
 - (b) free and innumerable transfers
 - (c) presumptions
 - (d) none of the above
11. Who among the following cannot cross a cheque?
 - (a) Drawer
 - (b) Holder
 - (c) Banker
 - (d) Foreigner
12. The presumption as to the date of a negotiable instrument under section 118 is that, every negotiable instrument bearing a date was made or drawn
 - (a) prior to that date
 - (b) on such date
 - (c) may be on or prior to that date
 - (d) none of the above

13. Where a cheque is crossed generally the banker on whom it is drawn shall not pay it
- otherwise than to a banker
 - otherwise than to the holder
 - to a banker
 - none of the above
14. The Negotiable Instrument Act is applicable to whole of
- India
 - India except Arunachal state
 - India except J & Kashmir
 - None of the above
15. The Negotiable Instruments Act, 1881 came into force on ____ March, 1882
- 9th
 - 19th
 - 1st
 - 2nd
16. The term Negotiable instrument is defined in section ____ of the N. I. Act, 1881
- 2
 - 13
 - 12
 - 10
17. The undertaking contained in a _____ to pay a certain sum of money is unconditional
- Delivery note
 - Promissory note,
 - Cheque
 - None of the above.
18. Which of these is not a negotiable Instrument as per the N. I. Act, 1881?
- Bill of exchange
 - Delivery note
 - Bearer Cheque
 - Share certificate
19. _____ is not a negotiable instrument as per customs and usage
- Delivery note
 - Railway Receipt
 - Cheque
 - Government promissory note
20. An instrument incomplete in one way or other is called _____ Instrument
- Inchoate
 - Ambiguous
 - Foreign
 - Dishonored
21. There are ____ parties to bill of exchange
- two
 - three
 - four
 - five
22. Cheque is always payable on _____
- supply
 - demand
 - both (a) and (b) above
 - None of the above.
23. A Company can be party to a Negotiable Instrument if ____
- authorized by its article of association
 - special permission of board of directors taken
 - special resolution by share holders is passed
 - absolutely without any restrictions
24. The grace period for payment of a negotiable instrument other than payable on demand is __ days
- 7
 - 3
 - 21
 - 15

SECTION – B: BUSINESS COMMUNICATION

25. Use of coupons and samples come under which mode of marketing communication?
- Sales promotion
 - Direct marketing
 - Personal selling
 - Advertising
26. What is the situation called when a bad image of the company is created?
- Positive PR
 - Negative PR
 - Customer service
 - Promotion
27. Business communications help in establishing _____ when marketing?
- Professionalism
 - Insolence
 - Pessimism
 - Relaxed attitude
28. Participants involved in the process of communication must be _____.
- Critical
 - Open-minded
 - Both a and b
 - None of the above
29. Which of the following is not one of the 8C's of communication?
- Curiousness
 - Completeness
 - Consideration
 - Concreteness
30. Need of proper grammar and syntax comes under which C of communication?
- Clarity
 - Coherence
 - Courteous
 - Correctness

ANSWER:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
C	B	B	B	A	B	C	A	A	D	D	B	A	A	C
16	17	18	19	20	21	22	23	24						
B	B	D	C	A	B	B	A	B						

25	26	27	28	29	30
A	B	A	B	A	D

Topic

Fundamentals
of Financial
Accounting -

Module 3:
Preparation of Final
Accounts

Fundamentals of
Cost Accounting -

Module 4:
Fundamentals of
Cost Accounting

FOUNDATION

Paper-2

Fundamentals of
Financial and Cost
Accounting (FFCA)

1. The object of non-trading concerns:
 - (a) Social service
 - (b) Profit earning
 - (c) Both of (a) and (b) and
 - (d) None of the above
2. If the rent of one month is still to be paid, the adjustment entry will be _____.
 - (a) Debit outstanding rent account and Credit rent account
 - (b) Debit profit and loss account and Credit rent account
 - (c) Debit rent account and Credit profit and loss account
 - (d) Debit rent account and Credit outstanding rent account
3. If a person fails to pay his debt, such an amount is considered as _____.
 - (a) Bad debts
 - (b) Bad debts recovered
 - (c) Provision for bad debt
 - (d) None of the above
4. Outstanding Expenses are related to the period of _____.
 - (a) Current year
 - (b) Next year
 - (c) Last Year
 - (d) Liability
5. Prepaid expenses are shown in _____.
 - (a) Liability side
 - (b) Asset Side
 - (c) As Note to Accounts
 - (d) Both Asset and Liability side
6. Calculate gross profit if gross profit rate is 20% on sales and cost of goods is ₹1,20,000.
 - (a) ₹24000
 - (b) ₹30000
 - (c) ₹20000
 - (d) None of the above
7. Sundry Debtors on 31st March, 2006 are ₹55, 200. Further Bad Debts are ₹200: Provisions for doubtful debts are to be made on debtors @ 5% and also provision of discount is to be made on debtors @ 2%. The amount of provision for discount on debtors will be:
 - (a) ₹1,045
 - (b) ₹2,750
 - (c) ₹1,100
 - (d) None of the above
8. The process of recording financial data up to trial balance is
 - (a) Book keeping
 - (b) Classifying
 - (c) Summarizing
 - (d) Analyzing
9. The assets that can be easily converted into cash within a short period (i.e., 1 year or less is known as,
 - (a) Current assets
 - (b) Fixed assets
 - (c) Intangible assets
 - (d) Investments
10. Which of the following expenses is not distributed based on time.
 - (a) Rent
 - (b) Salary
 - (c) Stationery expenses
 - (d) None of the above.
11. The provision for bad debts is made by crediting:
 - (a) Trading A/c
 - (b) Profit & Loss Account
 - (c) Debtors Account
 - (d) Provision for bad debts account
12. Organise the order of the process of final accounting.
 - (a) Final accounts, journal, ledger
 - (b) Ledger, journal final accounts
 - (c) Journal, ledger, final accounts
 - (d) They do not have an order

13. Which of these statements of false?
- A trading account determines the records of the selling and buying process of goods
 - The greater aim of a trading account is to differentiate between the cost price and the selling price of a particular good.
 - A trading account is used to calculate the trading shares of the company in the market.
 - The trading accounts show a distinctive picture of the trading results of a particular company
14. A profit and loss statement is prepared
- With the trading account
 - In succession to the trading account
 - Before the trading account
 - It can be prepared anytime
15. Profit and loss appropriation account is used to
- To divide the profit and loss between the owners of the company
 - To show an ideal profit and loss situation of the company according to the market.
 - To compare the profit and loss of the company with other companies
 - None of the above
16. A balance sheet of a company includes:
- Assets and Liabilities
 - Assets, Liabilities and equity of stockholders
 - Accounts, Assets and Liabilities
 - Transaction details, accounts, assets and liabilities
17. Opening Stock= ₹5,000, Purchases= ₹15,000, Direct Expenses= ₹2,000, Closing Stock= ₹2,500. Calculate Cost of goods sold
- ₹20,000
 - ₹19,500
 - ₹21,500
 - ₹22,000
18. Final accounts are prepared on a
- Yearly basis
 - Quarterly basis
 - Half Yearly basis
 - Any other period basis
19. Opening debtors = ₹3,000, Credit sales = ₹80,000, Cash received from debtors = 60,000, Closing Debtors?
- ₹30,000
 - ₹32,000
 - ₹23,000
 - ₹20,000
20. A person started a business with capital of ₹50,000, gives his personal furniture worth ₹10,000 to the business. He takes personal loan of Rs 5,000 from relative, Profit for the year is ₹10,000 and drawings ₹9,000. What will be the closing capital?
- ₹60,000
 - ₹51,000
 - ₹56,000
 - ₹61,000
21. Cost of goods sold = ₹15,00,000, Gross Profit = 20% on sales. Calculate the amount of sales.
- ₹18,25,000
 - ₹18,75,000
 - ₹18,50,000
 - ₹19,00,000
22. Process Costing is suitable for
- Hospitals
 - Fertilizer units
 - Transporters
 - Brick Laying
23. Cost incurred even when a business unit is closed
- Imputed Cost
 - Historical Cost
 - Sunk Cost
 - Shutdown Cost
24. Direct Expenses are also called
- Major Expenses
 - Chargeable Expenses
 - Overhead Expenses
 - Sundry Expenses

25. Indirect Material used in Production is classified as
- Office Overhead
 - Selling Overhead
 - Distribution Overhead
 - Factory Overhead
26. Warehouse Rent is part of
- Prime Cost
 - Factory Cost
 - Distribution Cost
 - Production Cost
27. Indirect Material Scrap is adjusted along with
- Prime Cost
 - Factory Cost
 - Material Cost
 - Indirect Material Cost
28. Total of all direct costs are termed as
- Prime Cost
 - Works Cost
 - Cost of Sales
 - Cost of Production
29. Loss arisen in course of manufacturing activity on account of inherent nature of the product is
- Normal Loss
 - Abnormal Loss
 - Nett Loss
 - Total Loss
30. Normal loss in manufacturing process leads to
- Reduction in Unit Price of good units
 - Increase in Unit Price of good units
 - Reduction in Costing Profit
 - Increase in Costing Profit

ANSWER:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
a	d	c	a	b	b	a	a	a	d	d	c	c	b	a
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
b	b	d	c	d	b	b	d	b	d	c	b	a	a	b

Topic

Fundamentals
of Business
Mathematics -

Module 3: Calculus
- Application in
Business

Fundamentals of
Business Statistics

Module 4: Statistical
Representation of
Data

FOUNDATION

Paper-3

Fundamentals
of Business
Mathematics and
Statistics (FBMS)

In this issue we will carry out MCQs on Calculus & Statistical Representation of Data –refer Module 3 and Module 4 of Study guide.

1. Given: $R(x) = 14x^2 - 1100x + 7000$ & $C(x) = 7x^2 + 500x + 3000$. The profit function is
 - (a) $14x^2 - 600x + 3000$
 - (b) $7x^2 - 600x + 4000$
 - (c) $14x^2 - 400x + 300$
 - (d) $7x^2 - 200x + 1500$
2. Given: $R(x) = 9x^2 + 150x + 2100$, $C(x) = 13x^2 + 70x + 1400$. The value of x is
 - (a) 20
 - (b) 30
 - (c) 10
 - (d) 50
3. Given $P = 31$, $C(x) = 28x - 57$. The break-even quantity is
 - (a) 17
 - (b) 18
 - (c) 19
 - (d) 21
4. With reference to Q. 3 the value of profit if the quantity changes from 19 to 30 is
 - (a) 150
 - (b) 160
 - (c) 147
 - (d) 157
5. A firm produces a product at a fixed cost of ₹25,000 and a production cost of ₹12.5 per piece. The product is sold at ₹20. The profit function is
 - (a) $\pi(x) = 7x - 25000$
 - (b) $\pi(x) = 5x - 25000$
 - (c) $\pi(x) = 7.5x - 25000$
 - (d) $\pi(x) = 5.5x - 25000$
6. A steel industry's quarterly fixed cost is ₹24,000 and its monthly production cost is ₹24. It sells its product at a price of ₹30. The monthly profit function.
 - (a) $\pi(x) = 4x - 6000$
 - (b) $\pi(x) = 6x - 8000$
 - (c) $\pi(x) = 8x - 8000$
 - (d) $\pi(x) = 9x - 10000$
7. With reference to Q.6 find the break-even quantity
 - (a) 1200
 - (b) 1333
 - (c) 2400
 - (d) 1800
8. An industry cost function is given by $C(x) = 7x^2 + 28x + 29$ and the revenue function is given by: $R(x) = 9x^2 + 12x + 4$. The profit function is
 - (a) $\pi(x) = 4x^2 - 11x - 22$
 - (b) $\pi(x) = 3x^2 - 17x - 25$
 - (c) $\pi(x) = 5x^2 - 13x - 25$
 - (d) $\pi(x) = 2x^2 - 14x - 25$
9. $f(x) = 2x^3 - \frac{15}{2}x^2 - 21x + 17$
 - (a) Maximum, $x = -2$; Minimum, $x = -\frac{3}{2}$
 - (b) Maximum, $x = 3$; Minimum, $x = 7$
 - (c) Maximum, $x = -1$; Minimum, $x = \frac{7}{2}$
 - (d) No curvature
10. $f(x) = \frac{5}{3}x^3 + 11x^2 - 17x + 34$
 - (a) Maximum, $x = 2.5$; Minimum, $x = -1.5$
 - (b) Maximum, $x = 3.33$; Minimum, $x = \frac{7}{11}$
 - (c) Maximum, $x = -\frac{17}{5}$; Minimum, $x = 1$
 - (d) No curvature
11. $f(x) = \frac{x^2}{3} + 2x^2 - 12x + 24$
 - (a) Maximum, $x = -1$; Minimum, $x = 3$
 - (b) Maximum, $x = 3$; Minimum, $x = 5$
 - (c) Maximum, $x = -2$; Minimum, $x = 6$
 - (d) No curvature

12. $f(x) = x^3 - 5x^2 + 7x - 9$
- Maximum, $x = 2.5$; Minimum, $x = -1.5$
 - Maximum, $x = 1$; Minimum, $x = \frac{7}{3}$
 - Maximum, $x = -\frac{1}{2}$; Minimum, $x = 1$
 - No curvature
13. Which one of the following is not a characteristic in a pie diagram?
- A pie diagram is a circular graph which is divided into sectors
 - Area of the sectors is proportional to the angles of the sector
 - It is used for comparing between components and its angle
 - Data in a pie diagram is represented as percentages
14. 150 students in a college were asked to opt for different hobbies. For photography 30 students opted for. In a pie diagram the photography sector made an angle of
- 72 degree
 - 12 degree
 - 42 degree
 - 2.4 degree
15. Frequency distribution of a variable is
- The ordered set $\{x, f\}$, where f is the frequency
 - The ordered set $\{x/f\}$, where f is the frequency
 - The ordered set $\{x + f\}$, where f is the frequency
 - The ordered set $\{x - f\}$, where f is the frequency
16. Class is formed when
- Observations are divided into groups and groups are divided into class interval
 - Observations are divided into groups and groups are bounded by limits
 - Observations are divided into groups and groups are bounded by class boundaries
 - Observations are divided into groups and groups are made continuous
17. The end values of a class is called
- Class boundary
 - Class interval
 - Class limit
 - Range
18. A class has
- 2 limits
 - 3 limits
 - 1 limit
 - 4 limits
19. Class interval of a class is
- Upper limit + Lower limit
 - (Upper limit – Lower limit)/2
 - Upper limit/Lower limit
 - (Upper limit – Lower limit)
20. Range of a class is defined as
- Range = Class interval
 - Range = Class interval/2
 - Range > Class interval
 - Range < Class interval
21. Lower class boundary of a class is
- Lower class limit of the class + $\frac{1}{2}$ of (Upper limit of previous class – Lower limit of the concerned class)
 - Lower class limit of the class - $\frac{1}{2}$ of (Upper limit of previous class – Lower limit of the concerned class)
 - Upper class limit of the class + $\frac{1}{2}$ of (Upper limit of previous class – Lower limit of the concerned class)
 - Upper class limit of the class - $\frac{1}{2}$ of (Upper limit of previous class – Lower limit of the concerned class)
22. Which one of the following is correct?
- True upper class limit of a class < upper class limit of the class
 - True upper class limit of a class = upper class limit of the class
 - True upper class limit of a class > upper class limit of the class
 - True upper class limit of a class = $\frac{1}{2}$ upper class limit of the class
23. The range of the marks from 1 to 100 is grouped into ten classes or groups viz: 1 – 10, 11-20 and so on. The class interval is
- 5
 - 8
 - 9
 - 10

24. Mid value of a class is
- $\frac{(\text{Lower class limit} + \text{upper class limit})}{2}$
 - $\frac{(\text{True Lower class limit} + \text{True upper class limit})}{2}$
 - $\frac{(\text{Upper class limit} - \text{lower class limit})}{2}$
 - $\frac{(\text{True upper class limit} + \text{True lower class limit})}{2}$
25. Class magnitude is equal to
- Upper class boundary
 - Upper class boundary – Lower class boundary
 - Lower class boundary
 - Upper class boundary + Lower class boundary
26. Inclusive series is
- When class intervals are so fixed that the lower limit of the class is included in that class
 - When class intervals are so fixed that the upper limit of the class is included in the next class
 - When class intervals are so fixed that the lower limit of the class is included in the previous class
 - When class intervals are so fixed that the upper limit of the class is included in that class
27. The graphs of frequency distribution are designed to present
- The characteristic features of a frequency data
 - The characteristic features of groups
 - The characteristic features of the statistical world
 - The characteristic features of individual data
28. Statistics is applied in
- Economics
 - Business management
 - Commerce and industry
 - All these
29. Which of the following statements is false?
- Statistics is derived from Latin word ‘status’
 - Statistics is derived from Italian word “Statista”
 - Statistics is derived from French word “Statistik”
 - None of these
30. The colour of a flower is an example of
- An attribute
 - A variable
 - A discrete variable
 - A continuous variable

Answer Keys:

1	b	
2	c	
3	c	
4	c	
5	c	
6	b	
7	b	
8	d	
9	c	<p>if" (x) < 0 → Maximum</p> <p>Find f'(x) and put f'(x) = 0 to find out the roots.</p> <p>Now find f''(x) and put the roots in f''(x) in order to find out the value of f''(x)</p> <p>Then, if f''(x) > 0 → Minimum</p>

Answer Keys:

10	c	
11	c	
12	b	
13	c	
14	a	
15	a	
16	b	
17	c	
18	a	
19	d	
20	a	
21	b	
22	c	
23	d	
24	a	
25	b	
26	d	
27	a	
28	d	
29	c	
30	a	

Suggestions:

The study guide needs to be read thoroughly. Supplementary readings could be made from other resources. In this issue MCQs are based on basic concepts developed in the respective modules/sub modules of the study guide. Students should try to solve individual questions with concepts developed from guide book to understand the correct answer of each question. Formula used here are all covered in study guide.

Best Wishes.

Topic

Fundamentals of
Business Economics

Fundamentals of
Management -

Module 5:
Fundamentals of
Management

FOUNDATION

Paper - 4

Fundamentals of
Business Economics
and Management
(FBEM)

TIPS ON BUSINESS ECONOMICS AND MANAGEMENT FOR THE MONTH OF JUNE 2024

On a sultry day in July, 1497, the Portuguese explorer Vasco da Gama, left Lisbon with 4 ships on a quest to find a sea route to India. At that time, India was one of the wealthiest countries in the world, the source of valuable commodities, including spices, semi-precious stones, silks, and other exotic goods that could be sold at great profit in Europe. Da Gama sailed around the Cape of Good Hope and arrived in India on May 20, 1498. He was hardly prepared for his first encounter with India, failing to understand that he would be dealing with a sophisticated culture that controlled considerable wealth. As a result, he had failed to bring the gold, silver and other valuables that successful trade would require. Departing India with a limited cargo of spices, his business venture was not looking good. By the time he returned to Lisbon in 1499 he had lost 116 members of his original crew from disease, malnutrition and murder. The small quantity of spices that he returned with was sold for a profit of 3000% -- however, by all accounts the trip was still considered to be a disaster.

So long for today. Let us start our mock test.

Choose the correct alternative:

1. Who proposed the Growth definition of economics?
 - A. Marshall
 - B. Pigou
 - C. Adam Smith
 - D. Samuelson
2. The main economic problems faced by any society include
 - A. What to produce
 - B. How to produce
 - C. For whom to produce
 - D. All the three above
3. The invisible hand as proposed by Adam Smith stands for
 - A. Price system
 - B. Production possibility Frontier
 - C. Highest amount of profit
 - D. None of the above
4. An improvement in production technology leads to a
 - A. Leftward shift in PPC
 - B. Rightward shift in the PPC
 - C. No change in PPC
 - D. None of the above
5. The notional demand for a commodity is
 - A. Backed by purchasing power
 - B. Not backed by purchasing power
 - C. Backed by the market demand
 - D. None of the above
6. The market demand curve for a commodity can be derived from the
 - A. Horizontal summation of individual demand curves
 - B. Vertical summation of individual demand curves
 - C. Cumulative summation of individual demand curves
 - D. None of the above
7. The negative slope of a normal demand curve is explained by
 - A. Substitution effect only
 - B. Income effect only
 - C. Substitution and income effect jointly
 - D. None of the above
8. If a variable factor is used beyond the optimum factor during short run, then there will be
 - A. Increasing returns to the variable factor
 - B. Decreasing returns to the variable factor
 - C. Constant returns to the variable factor
 - D. None of the above
9. Production function shows the relationship between
 - A. Demand and supply
 - B. Input and output
 - C. Both A and B
 - D. None of the above

10. Two iso-quants will
- Intersect each other at one point only
 - Intersect each other at more than one point only
 - Never intersect each other
 - None of the above
11. During long run, the external economies of scale are enjoyed by
- An industry
 - A firm
 - Both of them
 - None of them
12. If the long run production function of a firm under perfect competition follows constant returns to scale, then the LAC curve is
- Upward rising
 - Downward falling
 - Horizontal
 - None of the above
13. Total cost function is defined as
- The relationship between total cost and number of labourers
 - The relationship between total cost and amount of capital
 - The relationship between total cost and output
 - None of the above
14. At the equilibrium level of output, the positive distance between TR and TC of that firm becomes
- Maximum
 - Minimum
 - Zero
 - None of the above
15. Credit money is created in Indian economy by the
- RBI
 - LIC
 - Commercial banks
 - None of the above
16. One of the qualitative credit control instruments with the RBI is
- Bank rate
 - Cash reserve ratio
 - Differential rates of interest
 - None of the above
17. Interest rate charged on 'inter- bank' call money is called
- Repo rate
 - Call rate
 - Reverse repo rate
 - None of the above
18. Inflation means
- High price situation
 - Stable price situation
 - Rising price situation
 - None of the above
19. Narrow money in an economy is denoted by
- M1
 - M3
 - M4
 - None of the above
20. In Fisher's quantity theory of money, which is the correct assumption?
- Fall in the interest rate
 - Constant velocity of circulation of money
 - Constant price level
 - Rising aggregate demand
21. Which one of the following is the external environment in which an enterprise has to function?
- Business philosophy
 - Business priorities
 - Management structure
 - Govt. regulations
22. Which is inherent in managerial job and embodied in all the functions of management?
- Planning
 - Control
 - Co-ordination
 - Organizing

23. A manager has to exhibit the style of leadership depending on the
- Performance
 - Time
 - Situation
 - Period
24. Training conducted away from the actual work setting is
- On-the-job training
 - Off-the-job training
 - Step-by-step training
 - Job-instruction training
25. The task entrusted by the manager to his subordinates is called
- Authority
 - Responsibility
 - Direction
 - Integration
26. Responsibility may be defined in terms of
- Functions
 - Targets
 - Goals
 - All of the above
27. Subordinate is always responsible to his
- Peers
 - Foreman
 - Management
 - Superior
28. Subordinate do not accept delegation of authority because of which one of the following?
- Absence of superior
 - Fear of exposure
 - Criticism
 - More confidence in subordinate
29. Carrot and stick approach to motivation is adopted under which system?
- Exploitative Autocratic
 - Benevolent Autocratic
 - Consultative
 - Democratic
30. Under which leadership subordinates do not get the guidance and support of the leader?
- Free-rein leadership
 - Autocratic leadership
 - Participative leadership
 - None of the above

ANSWER:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
D	D	A	B	B	A	C	B	B	C	B	C	C	A	C
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
C	B	C	A	B	D	C	C	B	B	D	D	C	B	A

So friends!!

Hope you have enjoyed the mock test. But for Heaven's sake please do not consult the key before you have finished solving all the problems in the mock test. In fact you can use this mock test to find out your level of preparation for the exam if you keep a record of your performance in the successive mock tests.

Wish you all the best in your exam!!!

CMA INTERMEDIATE COURSE

Syllabus 2022

Topic

Module 13:

Business Ethics
and Emotional
Intelligence

INTERMEDIATE

Group I - Paper-5

Business Laws and
Ethics (BLE)

BUSINESS LAWS AND ETHICS

It is expected that you, the students should prepare a time-table with time allotted for each subject and read, write, revise and recapitulate all that you keep on reading. The first important point is that you must read the study materials provided by the institute and start asking questions to yourself and find your own answers. In this issue we shall deal with The Business Ethics with special emphasis on the concept of Emotional intelligence.

“Emotional intelligence, more than any other factor, more than I.Q. or expertise, accounts for 85% to 90% of success at work ... I.Q. is a threshold competence. You need it, but it doesn’t make you a star. Emotional intelligence can.” - Warren Bennis

Emotional intelligence is the ability of someone to acknowledge and realize not only their own emotions, but also the emotion of others. Ethics are moral principles that govern an individual’s behaviour. What makes emotional intelligence and ethics worth acquiring and investing into is that it allows one to ethically use that intelligence to guide their thoughts and behaviour accordingly, while allowing them to manage their emotions to adapt to environments. In business world, emotional intelligence and ethics helped us uniquely in many different ways, which resulted in noticeable benefits that we found from properly making use of it on a daily basis. These experiences with ethically using emotional intelligence made us realize how important it is to have, and helped us improve our business practice.

What is Ethics?

Business is an extension of the society and no business can sustain in the long run ignoring social values. Individual values infiltrate into society and turn into social values, which in turn are adopted by business and become business values. Business ethics, therefore, is choosing, adopting and working on good things and avoiding bad things. Right and wrong varies from business to business but there some virtues and values which are universally acknowledged.

Ethics is a set of rules that define right and wrong conduct. The term ‘ethics’ derived from Latin word ‘ethos’ which means character. Ethics is a social science which deals with concepts such as right and wrong, moral and immoral, good and bad behavior of dealing with one another.

Ethics is the basic concept and fundamental principle of decent human conduct. It includes the study of universal values of such as the essential quality of all men and

women, human or natural rights, obedience to the law of land, concern for health and safety and increasingly, also for the natural environment.

Ethics are the set of moral principles that guide a person’s behavior. These morals are shaped by social norms, cultural practices, and religious influences. Ethics reflect beliefs about what is right, what is wrong, what is just, what is unjust, what is good, and what is bad in terms of human behavior. They serve as a compass to direct how people should behave toward each other, understand and fulfill their obligations to society, and live their lives. While ethical beliefs are held by individuals, they can also be reflected in the values, practices, and policies that shape the choices made by decision makers on behalf of their organizations.

The phrases ‘business ethics and corporate ethics’ are often used to describe the application of ethical values to business activities. Ethics applies to all aspects of conduct and is relevant to the actions of individuals, groups, and organizations. In addition to individual ethics and corporate ethics there are professional ethics. Professionals such as managers, lawyers, and accountants are individuals who exercise specialized knowledge and skills when providing services to customers or to the public. By virtue of their profession, they have obligations to those they serve. For example, lawyers must hold client conversations confidential and accountants must display the highest levels of honesty and integrity in their record keeping and financial analysis. Professional organizations, such as the American Medical Association, and licensing authorities, such as state governments, set and enforce ethical standards.

Types of Ethics

Ethics may be divided into three types as follows:

1. Meta ethics;
2. Normative ethics;
3. Applied ethics.

Meta ethics deal with the nature of moral judgment. It looks at the origins and meanings of ethical principles. *Normative ethics* is concerned with the content of moral judgments and the criteria for what is right or wrong. *Applied ethics* is a branch of ethics; it can also be called practical ethics and looks at real-world ethical problems in the hopes of resolving them using philosophical methods. Such problems arise not only in academic settings but in many areas of public or private life. So, applied ethicists are not just scholars; they can also be doctors, businessman or scientists. Business ethics can be considered as applied ethics.

Emotional intelligence

Emotional intelligence also known as emotional quotient or EQ, is the ability to understand, use, and manage your own emotions in positive ways to relieve stress, communicate effectively, empathize with others, overcome challenges and defuse conflict. Emotional intelligence helps you build stronger relationships, succeed at school and work, and achieve your career and personal goals. It can also help you to connect with your feelings, turn intention into action, and make informed decisions about what matters most to you.

Emotional intelligence is commonly defined by four attributes

- **Self-management** – You're able to control impulsive feelings and behaviors, manage your emotions in healthy ways, take initiative, follow through on commitments, and adapt to changing circumstances.
- **Self-awareness** – You recognize your own emotions and how they affect your thoughts and behavior. You know your strengths and weaknesses, and have self-confidence.
- **Social awareness** – You have empathy. You can understand the emotions, needs, and concerns of other people, pick up on emotional cues, feel comfortable socially, and recognize the power dynamics in a group or organization.
- **Relationship management** – You know how to develop and maintain good relationships, communicate clearly, inspire and influence others, work well in a team, and manage conflict.

Why is emotional intelligence so important?

As we know, it's not the smartest people who are the most successful or the most fulfilled in life. You probably know people who are academically brilliant and yet are socially inept and unsuccessful at work or in their personal relationships. Intellectual ability or your intelligence quotient (IQ) isn't enough on its own to achieve success in life. Yes, your IQ can help you get into college, but it's your EQ that will help you manage the stress and emotions when facing your final exams. IQ and EQ exist in tandem and are most effective when they build off one another.

Emotional intelligence affects

Your performance at workplace: High emotional intelligence can help you navigate the social complexities of the workplace, lead and motivate others, and excel in your career. In fact, when it comes to gauging important job candidates, many companies now rate emotional intelligence as important as technical ability and employ EQ testing before hiring.

Your physical health: If you're unable to manage your emotions, you are probably not managing your stress either. This can lead to serious health problems. Uncontrolled stress raises blood pressure, suppresses the immune system, increases the risk of heart attacks and strokes, contributes to infertility, and speeds up the aging process. The first step to improving emotional intelligence is to learn how to manage stress.

Your mental health: Uncontrolled emotions and stress can also impact your mental health, making you vulnerable to anxiety and depression. If you are unable to understand, get comfortable with, or manage your emotions, you'll also struggle to form strong relationships. This in turn can leave you feeling lonely and isolated and further exacerbate any mental health problems.

Your relationships: By understanding your emotions and how to control them, you're better able to express how you feel and understand how others are feeling. This allows you to communicate more effectively and forge stronger relationships, both at work and in your personal life.

Conclusion

Business ethics is important to practice good ethical behavior. One of the most formidable challenges is avoiding immoral management, and transitioning from an amoral to a moral management mode of leadership, behavior, decision making, policies and practices. Moral management requires ethical leadership. It entails more than just 'not doing wrong'. Moral management requires that managers search out of those vulnerable situations in which amorality may reign if careful, thoughtful reflection is not given by management. Moral management requires that managers understand, and be sensitive to, all the stakeholders of the organization and their stakes. If the moral management model is to be achieved, managers need to integrate ethical wisdom with their managerial wisdom and take steps to create and sustain an ethical climate in their organizations.

Topic

Module 4:
Partnership

INTERMEDIATE

Group I - Paper-6

Financial
Accounting (FA)

Partnership Accounts

Partnership accounts are specialized financial statements used by partnerships to manage and report their financial activities. Partnerships, unlike sole proprietorships or corporations, involve two or more individuals who share ownership and the associated profits, losses, and management responsibilities. Below are the key concepts and components related to partnership accounts:

1. Partnership Agreement

A partnership agreement is a legal document that defines the terms and conditions of the partnership. Key elements include:

- **Profit-Sharing Ratio:** Specifies how profits and losses are divided among partners.
- **Capital Contributions:** Details the amount each partner contributes.
- **Management Duties:** Outlines the roles and responsibilities of each partner.
- **Dispute Resolution:** Procedures for resolving disagreements.

2. Capital Accounts

Partners' capital accounts can be either fixed or fluctuating.

- **Fixed Capital Account:** Capital contributions are constant; changes due to drawings, interest on capital, and share of profits/losses are reflected in a separate current account.
- **Fluctuating Capital Account:** All changes, including drawings, interest, and profit/loss allocations, are recorded in the capital account.

3. Current Accounts

Current accounts are used when capital accounts are fixed. They record the following:

- **Drawings:** Withdrawals by partners for personal use.
- **Interest on Capital:** Compensation for the capital invested.
- **Interest on Drawings:** Charge for using the partnership's funds.
- **Salaries:** Payments to partners for their work.
- **Share of Profit/Loss:** Allocated based on the profit-sharing ratio.

4. Profit and Loss Appropriation Account

This account allocates the net profit or loss among partners.

- **Net Profit/Loss:** From the Profit and Loss Account.

- **Interest on Capital:** Credited to partners.
- **Salaries to Partners:** Credited as per the agreement.
- **Interest on Drawings:** Debited to partners.
- **Remaining Profit/Loss:** Distributed according to the profit-sharing ratio.

5. Goodwill

Goodwill is an intangible asset representing the value of the business's reputation and customer base. It is accounted for during:

- **Admission of a Partner:** New partner compensates existing partners for goodwill.
- **Retirement/Death of a Partner:** Goodwill is adjusted among remaining partners.

6. Revaluation Account

Used during changes in the partnership, this account records:

- **Asset Revaluation:** Increases/decreases in asset values.
- **Liability Revaluation:** Changes in the value of liabilities.
- **Resulting Gain/Loss:** Shared among partners.

7. Admission of a Partner

When a new partner joins:

- **Revaluation of Assets and Liabilities:** To reflect current values.
- **Adjustment for Goodwill:** Compensating existing partners.
- **New Profit-Sharing Ratio:** Agreed upon and adjusted.

8. Retirement or Death of a Partner

When a partner leaves:

- **Settlement of Capital Account:** The retiring/deceased partner's account is settled.
- **Revaluation of Assets and Liabilities:** Necessary adjustments.
- **Goodwill Adjustment:** Shared among remaining partners.

9. Dissolution of Partnership

Upon dissolution:

- **Realization Account:** Used to account for the sale of assets and settlement of liabilities.
- **Distribution of Remaining Cash:** Among partners according to their capital accounts.

Financial Statements in Partnership Accounts

1. Balance Sheet

Reflects the partnership's financial position:

Liabilities	Amount	Assets	Amount
Partners' Capital Accounts		Fixed Assets	
Partner A	₹50,000	Property	₹80,000
Partner B	₹50,000	Current Assets	
Creditors	₹10,000	- Cash	₹20,000
		- Debtors	₹10,000
Total Liabilities	₹110,000	Total Assets	₹110,000

2. Profit and Loss Account

Shows revenue, expenses, and net profit/loss:

Particulars	Amount	Particulars	Amount
Revenue	₹100,000	Expenses	₹70,000
Net Profit	₹30,000		

3. Profit and Loss Appropriation Account

Allocates net profit/loss:

Particulars	Amount	Particulars	Amount
Profit for the year	₹30,000	Salaries to Partners	₹10,000
Interest on Capital: Partner A	₹2,000	Interest on Drawings: Partner B	₹1,000
Interest on Capital: Partner B	₹2,000	Profit shared: Partner A (60%)	₹10,200
		Profit shared: Partner B (40%)	₹6,800
Total Appropriation	₹34,000	Total Appropriation	₹34,000

Amalgamation of Partnership Firms

Amalgamation of partnership firms refers to the process where two or more partnership firms combine to form a new entity or one existing firm absorbs another. This consolidation aims to achieve various objectives, such as enhancing business operations, increasing market share, and improving financial stability. Below is a comprehensive guide on the amalgamation of partnership firms.

Reasons for Amalgamation

- Expansion:** To increase business operations and market presence.
- Synergy:** To achieve economies of scale and enhance efficiency.
- Resource Optimization:** To combine resources, expertise, and capital.
- Financial Stability:** To strengthen financial position and creditworthiness.
- Competitive Advantage:** To compete more effectively in the market.

Steps in Amalgamation

- Agreement:** Partners of the amalgamating firms must agree on the terms and conditions of amalgamation.
- Valuation of Assets and Liabilities:** Both firms must evaluate their assets and liabilities to determine their fair value.
- Revaluation Account:** Adjustments for any increase or decrease in the value of assets and liabilities.
- Goodwill:** Calculate and adjust goodwill if necessary.
- Capital Adjustment:** Recalculate and adjust partners' capital accounts to reflect the new profit-sharing ratios.
- Drafting a New Partnership Deed:** Create a new partnership deed for the amalgamated firm.
- Transfer of Balances:** Transfer the balances of assets, liabilities, and capital accounts to the new entity.

Example

Firm A and Firm B Amalgamation

Firm A Balance Sheet

Liabilities	Amount	Assets	Amount
Capital: Partner X	₹50,000	Fixed Assets	₹80,000
Capital: Partner Y	₹30,000	Current Assets	₹20,000
Creditors	₹20,000		
Total Liabilities	₹100,000	Total Assets	₹100,000

Firm B Balance Sheet

Liabilities	Amount	Assets	Amount
Capital: Partner M	₹40,000	Fixed Assets	₹70,000
Capital: Partner N	₹20,000	Current Assets	₹20,000
Creditors	₹30,000		
Total Liabilities	₹90,000	Total Assets	₹90,000

Revaluation and Goodwill

- **Firm A Revaluation:** Increase Fixed Assets by ₹10,000.
- **Firm B Revaluation:** Decrease Fixed Assets by ₹5,000.
- **Goodwill:** Firm A's Goodwill is valued at ₹15,000; Firm B's Goodwill is valued at ₹10,000.

Journal Entries

1. Revaluation of Firm A's Fixed Assets:

- o **Debit:** Fixed Assets ₹10,000
- o **Credit:** Revaluation Account ₹10,000

2. Revaluation of Firm B's Fixed Assets:

- o **Debit:** Revaluation Account ₹5,000
- o **Credit:** Fixed Assets ₹5,000

3. Goodwill Adjustment for Firm A:

- o **Debit:** Goodwill Account ₹15,000
- o **Credit:** Partner X Capital Account ₹9,000
- o **Credit:** Partner Y Capital Account ₹6,000

4. Goodwill Adjustment for Firm B:

- o **Debit:** Goodwill Account ₹10,000

- o **Credit:** Partner M Capital Account ₹6,000

- o **Credit:** Partner N Capital Account ₹4,000

5. Closing Books of Firm A:

- o **Debit:** Realization Account ₹110,000 (Assets ₹100,000 + Revaluation ₹10,000)
- o **Credit:** Fixed Assets ₹80,000
- o **Credit:** Current Assets ₹20,000
- o **Credit:** Revaluation Account ₹10,000
- o **Debit:** Creditors ₹20,000
- o **Credit:** Realization Account ₹20,000

6. Opening Books of New Firm:

- o **Debit:** Fixed Assets ₹155,000 (Firm A ₹90,000 + Firm B ₹65,000 after revaluation)
- o **Debit:** Current Assets ₹40,000 (Firm A ₹20,000 + Firm B ₹20,000)
- o **Credit:** Creditors ₹50,000 (Firm A ₹20,000 + Firm B ₹30,000)
- o **Credit:** Goodwill ₹25,000 (Firm A ₹15,000 + Firm B ₹10,000)
- o **Credit:** Capital Accounts (adjusted based on new profit-sharing ratio)

Questions:

1. What is the purpose of a partnership agreement?
 - a) To outline the business's goals
 - b) To define the terms and conditions of the partnership
 - c) To register the partnership with the government
 - d) To set employee salaries
2. Which account records withdrawals by partners?
 - a) Current Account
 - b) Capital Account
 - c) Profit and Loss Appropriation Account
 - d) Realization Account
3. When a new partner is admitted, what must be adjusted?
 - a) Only the capital account
 - b) Only the goodwill account
 - c) Revaluation of assets and liabilities
 - d) No adjustments are needed
4. What is recorded in the Profit and Loss Appropriation Account?
 - a) Revenues and expenses
 - b) Assets and liabilities
 - c) Allocation of net profit or loss among partners
 - d) Drawings by partners
5. What happens to goodwill when a partner retires?
 - a) It is ignored
 - b) It is written off
 - c) It is distributed as cash
 - d) It is adjusted among remaining partners
6. What is the Realization Account used for during dissolution?
 - a) To record daily transactions
 - b) To account for the sale of assets and settlement of liabilities
 - c) To distribute profits
 - d) To revalue assets and liabilities
7. In a fixed capital account system, where are the drawings recorded?
 - a) In the current account
 - b) In the capital account
 - c) In the Profit and Loss Account
 - d) In the Balance Sheet
8. Which statement is true about interest on capital?
 - a) It is always a fixed percentage
 - b) It is an expense for the partners
 - c) It is an expense for the partnership
 - d) It does not affect the Profit and Loss Appropriation Account
9. During the admission of a new partner, what happens to the old profit-sharing ratio?
 - a) It remains unchanged
 - b) It is dissolved and a new ratio is established
 - c) It is doubled
 - d) It is shared equally among all partners
10. Which of the following is not a component of the Balance Sheet?
 - a) Partners' Capital Accounts
 - b) Current Assets
 - c) Profit for the year
 - d) Fixed Assets

ANSWER

1	2	3	4	5	6	7	8	9	10
b	a	c	c	d	b	a	c	b	c

Topic

Module 3:

Total Income and
Tax Liability of
Individuals & HUF

INTERMEDIATE

Group I - Paper-7A

Direct Taxation (DT)

Alternate Minimum Tax & Alternative Tax Regime

The Finance Act, 2011 had introduced the concept of AMT in relation to LLPs and accordingly the LLPs were subject to AMT @ 18.5% of adjusted total income. Total income shall be increased by deductions claimed under Part C of Chapter VI-A and deductions claimed u/s 10AA to arrive at adjusted total income. The Finance Act, 2012 extended the levy of AMT to certain persons other than companies.

Subsequently, the investment linked deductions have been provided in place of profit linked deductions. With a view to include the investment linked deduction claimed u/s 35AD in computing adjusted total income for the purpose of calculating alternate minimum tax, it was amended so as to include deduction claimed u/s 35AD for the purpose of computation of adjusted total income.

At present the Act provides that where the regular income-tax payable by a person, other than a company, for a previous year computed as per the provisions of the Income-tax Act, 1961 (other than Chapter XII-BA) is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @ 18.5%.

Alternate Minimum Tax (AMT) [Sec. 115JC]

Applicable to

All assessee (other than company) who has claimed any

deduction under:

- Sec. 80H to Sec. 80RRB (other than sec. 80P); or
- Sec.10AA
- Sec.35AD

Exception:

The provisions shall not apply to an individual or a HUF or an AOP or a BOI, whether incorporated or not, or an artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.

Taxpoint:

- *The exception is not applicable in case of a Firm and Limited Liability Partnership. That means AMT is applicable on LLP / Firm (claiming deduction under aforesaid section) even though adjusted total income does not exceed ₹ 20 lakh.*
- *The provisions of this section shall not apply to a person who has exercised the option referred to in sec. 115BAC or 115BAD [alternative tax regime]*
- *The provision is not applicable to the specified fund referred to in clause (c) of the Explanation to sec. 10(4D).*

Scheme of Alternate Minimum Tax (AMT)

Step 1	Compute regular income tax liability (before Cess) of the assessee covered under these provisions	A	****
Step 2	Compute Adjusted Total income of the assessee i.e.		*****
	Total income of the assessee	****	B
	<i>Add:</i>		
	• Deduction claimed u/s 80H to sec. 80RRB (other than sec. 80P)	***	C
	• Deduction claimed u/s 35AD less Depreciation u/s 32	***	D
	• Deduction u/s 10AA	***	E
	Adjusted Total Income	****	F
	<p><u>Note:</u></p> <p>(i) If 'C', 'D' and 'E' is zero, then these provisions are not applicable to any assessee.</p> <p>(ii) if 'F' does not exceed ₹ 20 lakh, then these provisions are not applicable in case of an Individual / HUF / AOP / BOI / Artificial juridical person. However, the provision is applicable on LLP / Firm.</p>		
Step 3	Compute Alternate Minimum Tax (AMT) [Being 18.5% of Adjusted Total Income]	G = F * 18.5%	****
Step 4	Income Tax liability	Higher of A&G	****
	<i>Add:</i> Health & Education Cess		**
	Tax liability after Cess		****

Exceptions

- **Unit in IFSC:** Where the assessee is a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange, the rate of AMT shall be 9%
- **Co-operative Society:** In the case of co-operative societies the rate would be 15%.
- Further the provision of AMT is not applicable if the assessee is paying tax u/s 115BAC(1A) [i.e., under new tax regime] or co-operative societies paying tax u/s 115BAD or sec. 115BAE.

Impact where AMT is applicable i.e., a case where the value of Step 3 is higher than the value of Step 1

- a. Adjusted total income (as computed in step 2) shall be deemed as total income of the assessee.
- b. Tax liability of the assessee shall be 18.5%¹ (+ surcharge + cess) of adjusted total income of the assessee.
- c. A report in Form 29C from a chartered accountant is required to be upload one month prior to the due date of furnishing of return of income u/s 139(1).
- d. All other provisions of the Act, like advance tax, interest, etc. apply to such assessee.

Tax credit for alternate minimum tax [Sec. 115JD]

- ⊗ The excess of alternate minimum tax paid over the regular income tax payable of that year shall be allowed as tax credit.

Mathematically, tax credit available = Tax paid u/s 115JC – Regular Tax payable

- ⊗ However, no interest shall be payable on the tax credit allowed.

- ⊗ The amount of tax credit determined shall be carried forward and set off but such carry forward shall not be allowed beyond the 15th assessment year immediately succeeding the assessment year in which tax credit becomes allowable.
- ⊗ The tax credit shall be allowed set-off in a year when regular tax becomes payable by the assessee.
- ⊗ Set off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the alternate minimum tax payable u/s 115JC for that assessment year and the balance of the tax credit, if any, shall be carried forward. In other words, after setting off of AMT credit, tax liability of the year cannot be less than AMT for that year.
- ⊗ The amount of tax credit in respect of any income-tax paid in any country or specified territory outside India u/s 90 or 90A or 91, allowed against the alternate minimum tax payable, exceeds the amount of the tax credit admissible against the regular income-tax payable by the assessee, then, while computing the amount of credit u/s 115JD, such excess amount shall be ignored.
- ⊗ If the amount of regular income-tax or the AMT is reduced or increased as a result of any order passed under this Act, the amount of tax credit allowed under this section shall also be varied accordingly.

Conclusion

The AMT u/s 115JC is a significant provision of the Income Tax Act that ensures a fair and equitable distribution of the tax burden. It prevents high-income taxpayers from avoiding tax liability through excessive use of deductions and incentives.

¹ Or 15% or 9% as the case may be

Topic

Module 6:
Customs Act &
Rules

INTERMEDIATE

Group I - Paper-7B

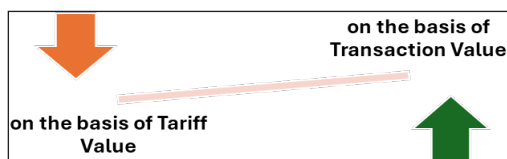
Indirect Taxation
(IDT)

Customs Valuation Rules

The terms 'customs' derives its colour and essence from the term 'custom', which means a habitual practice or course of action that characteristically repeated in like circumstances. The collection of revenue through Customs is known in India, from the time immemorial. Laws for collection of revenue and punishments for violation thereof are indicated as early as in Kautilya's "Arthasasthra". Customs, as a major source of revenue, plays a very important role in the economy of our country.

Entry No. 83 of the List I to the Schedule VII of the Constitution empowers the Union Government to legislate and collect duties on imports and exports. Accordingly, the Customs Act, 1962, effective from 1-2-1963 provides vide its section 12 for the levy of duties on goods imported into or exported from India. The items and the rates of duties leviable thereon are specified in two Schedules to the Customs Tariff Act, 1975. The First Schedule specifies the various import items in systematic and well considered categories, in accordance with an international scheme of classification of internationally traded goods known as 'Harmonized System of Commodity Classification' and specifies the rates of import duties thereon, as prescribed by the legislature. The duties on imported items are usually levied either on specific or ad-valorem basis, but in few cases specific-cum-ad valorem duties are also levied. The Second Schedule incorporates items that are subject to exports duties and the rates of duties thereof.

The rate of customs duty leviable on imported or exported goods are either specific or ad valorem basis (i.e., as a percentage of the value of goods) or at times on specific cum ad valorem. In case of ad valorem duty, the valuation of the goods may be determined in any of the following manner:



Valuation on the basis of Transaction Value [Sec. 14(1)]

- Valuation of Imported Goods:** The value of the imported goods shall be the transaction value of such goods, that is to say,
 - the price actually paid or payable for the goods;

- when sold for export to India;
 - for delivery at the time and place of importation;
 - where the buyer and seller of the goods are not related; and
 - price is the sole consideration for the sale
- subject to such other conditions as may be specified in the rules¹ made in this behalf.

Taxpoint

- Such transaction value in the case of imported goods shall include, in addition to the price as aforesaid, any amount paid or payable for costs and services, including
 - commissions and brokerage (excluding buying commission);
 - engineering, design work;
 - royalties and licence fees;
 - costs of transportation to the place of importation;
 - insurance;
 - loading, unloading and handling charges

to the extent and in the manner specified in the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007

Customs Valuation (Determination of price of imported goods) Rules, 1988

Methods to be followed (in hierarchal order) for determination of the price of imported goods

- Primary Method: Transaction value [Rule 3]
- Secondary Method
 1. Transaction value of identical goods [Rule 4]
 2. Transaction value of similar goods [Rule 5]
 3. Deductive value [Rule 7]
 4. Computed value [Rule 8]
 5. Residual method [Rule 9]

Note: On request, the order of application of rules 7 (i.e. Deductive value) and 8 (i.e. Computed value) shall be reversed.

¹ The Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 have been specified.

Transaction Value [Rule 3]

Transaction value shall be accepted as price, provided the following conditions are satisfied –

1. The sale is in the ordinary course of trade under fully competitive conditions;
2. There are no restriction as to the disposition or use of the goods by the buyer other than restrictions which –
 - a. are imposed or required by law or by public authorities in India; or
 - b. limit the geographical area in which the goods may be resold; or
 - c. do not substantially affect the value of the goods;
3. The sale or price is not subject to condition or consideration for which a value cannot be determined;
4. Any part of the proceeds of subsequent resale, disposal or use of the goods by the buyer will not be shared with the seller unless an appropriate adjustment is made;
5. The buyer and seller are not related.

Transaction value of identical goods [Rule 4]

The value of imported goods shall be the transaction value of identical goods sold for export to India and imported at or about the same time as the goods being valued.

Taxpoint

1. *Identical goods* means imported goods –
 - a) which are same in all respects, including physical characteristics, quality and reputation as the goods being valued except for minor differences in appearance that do not affect the value of goods;
 - b) produced in the country in which the goods being valued were produced; and
 - c) produced by the same person who produced the goods or where no such goods are available, then goods produced by a different manufacturer.

However, identical goods do not include goods where engineering, development, art work, design work, plan or sketch was done by the buyer in India free of charge or at a reduced cost.

2. Such identical goods shall be sold at the same commercial and quantity level. Where no such sale is found, the transaction value of identical goods sold at a different commercial level or in different quantity or both shall be used with certain adjustment.
3. Where more than one transaction value of identical goods is found, then the lowest of such value shall be used for determining the value of imported goods.

Transaction value of similar goods [Rule 5]

The value of imported goods shall be the transaction value of similar goods sold for export to India and imported at or about the same time as the goods being valued.

Notes

1. *Similar goods* means imported goods –
 - a) which although not alike in all respect, have like characteristics and like component materials which enable them to perform the same function. Such goods shall be commercially interchangeable with the goods being valued having regard to the quality, reputation and the existence of trade-mark.
 - b) produced in the country in which the goods being valued were produced; and
 - c) produced by the same person who produced the goods or where no such goods are available, then goods produced by a different manufacturer.

However, similar goods do not include goods where engineering, development, art work, design work, plan or sketch was done by the buyer in India free of charge or at a reduced cost.

2. Such similar goods shall be sold at the same commercial and quantity level. Where no such sale is found, the transaction value of similar goods sold at a different commercial level or in different quantity or both shall be used with certain adjustment.
3. Where more than one transaction value of similar goods is found, then the lowest of such value shall be used for determining the value of imported goods.

Deductive Value [Rule 7]

Where the goods being valued or identical or similar imported goods are sold in India at or about the time of determination of value, then the value of imported goods shall be based on the unit price at which such goods are sold in the *greatest aggregate quantity* to the *unrelated* person in India as reduced by -

- a) the commission usually paid or payable or the additions usually made for profits and general expenses for sales in India;
- b) the cost of transport and insurance and other cost incurred within India;
- c) the customs duty and other taxes payable in India by reason of importation or sale of the goods.

Notes

1. Where such goods are not sold at or about the same time of importation of the goods being valued, then the value of imported goods shall be based on the unit price at which the imported goods or identical or similar imported goods are sold in India at the earliest date after importation but before the expiry of 90 days after such importation.
2. Where such goods are sold in India after further processing, then the value shall be based on the unit price at which the imported goods after processing are sold in the greatest aggregate quantity to an unrelated person in India as reduced by processing and other cost (as referred above) incurred in India.

Computed value [Rule 8]

The value of imported goods shall consist of –

- a) The cost or value of materials and fabrication or other processing employed in producing the imported goods;
- b) An amount for general expenses and profit made by producers in the country of exportation for export to India;
- c) The cost of transport, insurance, etc.

Residual method [Rule 9]

Where the value of imported goods shall not be determined as per any preceding rules, then the value shall be determined using -

- reasonable means consistent with the principles;
- general provisions of these rules; and
- data available in India.

These methods are designed to ensure that customs valuation is based on real economic transactions and reflects the true value of the goods. Importers must provide detailed documentation to support their declared value, including invoices, contracts, and other relevant documents. Failure to comply with these rules can result in penalties, including additional duties and fines.

Topic

Module 6:

Cost Accounting
Techniques

INTERMEDIATE

Group I - Paper-8

Cost Accounting
(CA)

COST ACCOUNTING

Marginal Costing is an important Chapter and not less than one question is set from this chapter in this Examination. The students should learn the actual implication of different marginal cost equations and the effect on those equations due to change in cost. Here Break-even Analysis is the most important area of this Chapter. Hence a thorough knowledge of Fixed and variable cost and its implication in product cost is necessary. So you should have clear understanding and use of contribution which is the key to different problems. The effect on Profit –Volume ratio is an important part of this Chapter. You should go through this problems very carefully as P/V ratio helps to eliminate the unprofitable lines which are having either a lower P/V ratio or low volume. you should also know the details about the Margin of safety and Angle of incidence

Marginal Costing has been used mainly for internal reporting with a view to enabling the management to effectively plan and control the operations. It is a management technique of ascertaining marginal costs and of the effect on profit of changes in volume or type of output by differentiating the total cost into fixed and variable. Further, this is an accounting system in which variable costs are charged to the cost units and fixed cost of the period are written off in full against the aggregate contribution. Its special value is in decision making. Again, it is the cost of one unit of product or services which would be avoided if that unit was not produced or provided.

Absorption Costing is a technique, which considers the accumulation of all costs i.e. both fixed and variable cost. Here all manufacturing expenses are charged to products cost. It is also known as total costing or conventional costing. Contribution is the difference between sales and variable cost or marginal costs is known as contribution. It is also called as contribution margin, marginal income, marginal balance etc. It is vital in marginal costing. It is the margin, not the profit.

Break-even point is a point where there is neither profit nor loss. Here the contribution is equal to fixed cost. It is the level of output which breaks even the costs and revenues and hence is called BEP in graphical representation of cost volume profit relationship break-even point is the point at which the total cost line and the total sales line intersect each other. Thus BEP is the level of sales income, which equals the sum of its variable costs and fixed expenses.

Break-even Chart is a graphical representation of Marginal Costing. It can be defined as a chart which shows the profitability or otherwise of an undertaking at various levels of activity and as a result indicates the point at which neither profit nor loss is made.

Profit Volume Ratio is the ratio of contribution to the sales. Generally it is expressed in percentage form. It can be symbolically expressed as $P/V \text{ Ratio} = C/S \times 100$ or $(S - V)/S \times 100$, $C = \text{contribution}$, $S = \text{Sales}$, $V = \text{Variable Cost}$.

Margin of Safety represents the difference between the actual sales and BE sales. In other words it is the excess of sales over the BE sales. The soundness of the business can be measured with the help of Margin of Safety. It depends on the level of fixed cost, rate of contribution and level of sales.

Angle of incidence is the angle formed between the sales line and the total cost line. It indicates the rate at which profits are earned. It also indicates the profit earning capacity of a business. When the angle of incidence is larger, it indicates a high margin of profit.

The following Problem can be able to clear the concept of Marginal Costing :-

Problem—

Siv Enterprise furnishes you the following information relating to the half year ending 30th June 2023:-

Fixed Expenses ₹ 50,000, Sales Value ₹ 2,00,000, Profit ₹ 50,000,

During the second half of the year the Company has projected a loss of ₹ 10,000. you are required to work out :

- 1) P/V Ratio, Break-even point and Margin of Safety for six months ending 30th June 2023 .
- 2) Expected sales volume for the second half of the year assuming that selling price and Fixed expenses remain unchanged in the second half year also.
- 3) The Break-even point and Margin of safety for the whole year 2023.

Solution –

- 1) $\text{Contribution} = F + P = 50,000 + 50,000 = 1,00,000$
 $P/V \text{ Ratio} = C/S \times 100 = 1,00,000/2,00,000 \times 100 = 50\%$
 $\text{BEP} = F/P/V \text{ ratio} = 50,000/50\% = ₹ 1,00,000$
 $\text{Margin of Safety} = \text{Sales} - \text{BEP} = 2,00,000 - 1,00,000 = ₹ 1,00,000$
- 2) $\text{Contribution} = F + P$ or $F - \text{Loss} = 50,000 - 10,000 = ₹ 40,000$
 $C = S \times P/V \text{ ratio}$
 $40,000 = S \times 50\%$
 $S = 40,000/50\% = ₹ 80,000$ for second half of the

year.

3) For full year 2023 :

Sales = 2,00,000 + 80,000 = ₹ 2,80,000

Fixed expenses 50,000 + 50,000 = ₹ 1,00,000

P/V Ratio = 50%, BEP = 1,00,000/ 50% = ₹ 2,00,000

Profit 50,000 – 10,000 = ₹ 40,000

Margin of Safety = 2,80,000 – 2,00,000 = ₹ 80,000
or ,

Margin of Safety = P/P/V ratio + 40,000/ 50% =
₹ 80,000.

Profit is the ultimate goal to the businessman as well as to the management . the expression cost volume profit relationship is thus important to the management .Profit is actually the result of interplay of cost volume and selling price . the effectiveness of a management largely depends on his ability to make correct prediction about future profits. The knowledge of cost volume profit relationship helps the management to find out the right path to solve the various problems that it faces in the course of its action.

The use of Cost –volume-profit analysis are as follows -

- 1) It helps the management to estimate or predict over a wide range of volumes .
- 2) It helps management in taking many crucial decisions viz. whether capacity or volume of sales should be increased or not , how can the profit be increased by utilizing the existing capacity etc.
- 3) With the help of this relationship the profit performance of a concern can be easily evaluated.
- 4) It helps in profit planning .
- 5) It helps management in product pricing.

ASSUMPTIONS IN CVP ANALYSIS :---

- 1) Selling price are constant.
- 2) All costs can be divided into Fixed and Variable components.
- 3) Total variable costs are directly proportional to volume of production.
- 4) Price of factors of production are constant.
- 5) Efficiency and productivity are constant ‘
- 6) Total Fixed cost remains constant .
- 7) Revenue and cost are being compared on per unit basis .and
- 8) Production volume and sales will be equal at all points of time.

There are various uses of Marginal Costing Technique, which are as follows.:-

1) FIXING OF SELLING PRICE

Price fixation is one of the principle functions of the management . product pricing is necessary under different circumstances such as – competitions or tread depressions, utilization of idle capacity etc.

2) SELLING AT OR BELOW MARGINAL COST

- a) At the time of introduction of new product in the market ‘
- b) Driving out the weaker competitors .
- c) To retain existing market.
- d) To disposed of the perishable goods.
- e) To prevent loss of trade .
- f) To push up the sales of joint product .
- g) To keep the employees occupied.
- h) To keep the machine ready for full production.

3) LEVEL OF ACTIVITY PLANNING.

This technique helps the management to decide the optimum level of activity.

4) EVALUATION OF PROFITABILITY

The decision whether a department should continue or not depends to a large extent on their comparative profitability.

5) SELECTION OF PROFITABLE SALES-MIX .

The technique can be applied in determination of most profitable product or sales mix. Especially when a concern produces more than on3e product.

6) KEY / LIMITING FACTOR

The key factor is that which puts a limit on production or sales. There are various things which can be considered as the key factors such as, shortage of material, labour, plant capacity, capital, demand of the product etc.

7) MAKE OR BUY

A concern may have some idle capacity , which can be utilized for making components or parts instead of buying them from outside. In arriving at such a make or buy decision the market price should be compared with the marginal cost of producing component parts. If the marginal cost is lower than the price quoted by outside vendors, it will be more profitable to manufacture the component in the factory instead of purchasing from outside. On the other hand, when there are no idle capacities , making or buying decisions should be taken on the basis of loss of contribution.

Topic

Module 6:

Project
Management,
Monitoring and
Control

INTERMEDIATE

Group II - Paper-9

Operations
Management
and Strategic
Management
(OMSM)

Operations Management

This time we will discuss on Project Management, Monitoring and Control-PERT and CPM. Refer sub module 6.4 of the guide book

Network analysis plays an important role in Project Management. By analysis a network, which is a graphic description of “activities” and “events”, the planning, scheduling and control of a project becomes much easier.

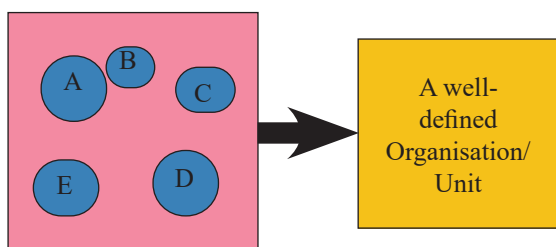
PERT: Programme Evaluation and Review Technique (PERT)

CPM: Critical Path Method (CPM)

What is usually called PROJECT?

Simply put, a **project** is a series of tasks that need to be completed in certain sequence in order to reach a specific outcome—a well-defined organisation----say establishment of a Power Plant.

Super Thermal Power Station of NTPC at Farakka is an established organisation. The construction of this power plant started in the 8th decades of the last century. Our concern in this topic is to know the management procedures during the construction period.



Different Activities/Tasks are required to be completed to have a well-defined organisation

Through Network analysis we will learn how to Manage these activities effectively.

Initial step in PERT/CPM project scheduling process is the determination of all specific activities that comprise the project and their independent relationships. In this issue we mainly discuss the preliminaries for development of a network and subsequent determination of a critical path.

Let us take a simple example.

Suppose that

- a new machine is required by a department for which budget approval is needed

- a new machine necessitates employment of an operator who would be trained for operating the machine
- the operator can be hired as soon as the proposal for buying the machine is cleared
- the operator will be trained on a similar machine in the training division of the department
- once the machine is installed and the worker trained the trial production can commence.

In this project the various activities required to be performed along with the time needed for the execution are given in the following table:

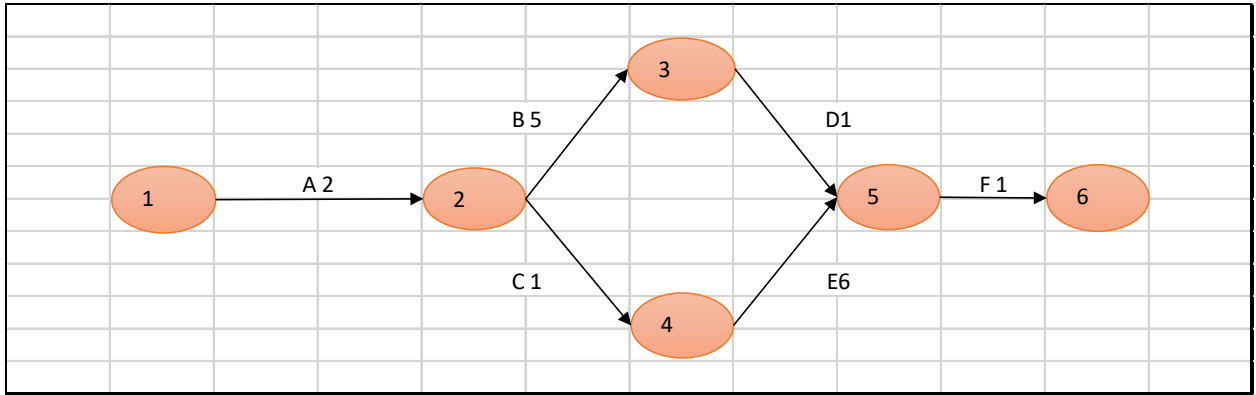
List of activities and precedence relationships

Activity	Description	Duration (Weeks)	Immediate Predecessor/s
A	Obtain the Budget approval	2	-
B	Obtain the machine	5	A
C	Hire the Operator	1	A
D	Install the machine	1	B
E	Train the operator	6	C
F	Produce the goods	1	D,E

Once the activities comprising a project as also the interdependency relationships among them are clearly identified (i.e. for each activity the activities which precede it, the activities which follow it, the activities which take place concurrently etc) , they can be portrayed graphically by a network or an arrow diagram

Development of project network:

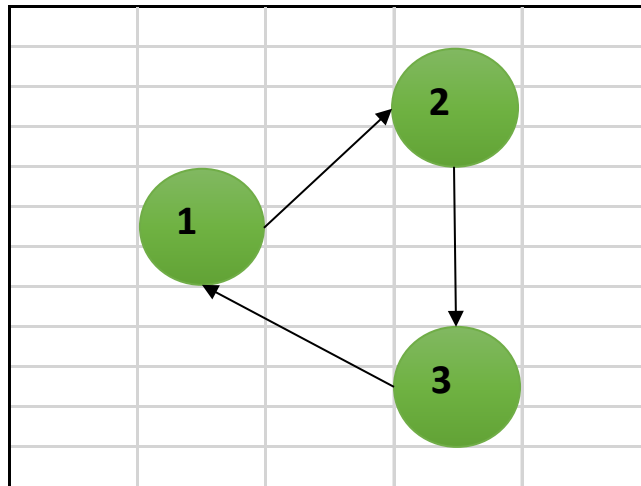
- Network can be constructed through the use of arrows and nodes
- An activity is represented by an arrow
- The head of the arrow marks the completion of the activity and the tail of the arrow marks its beginning
- Nodes represent start and finish of an activity
- Nodes at tail indicate event of start of an activity and nodes at head indicate event of end of an activity



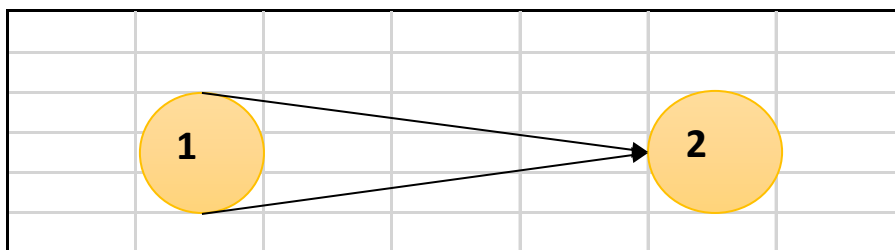
Network representing our illustration is shown above

Node 1 & Node 2 indicates the event of starting the activity A and the event of end of activity A. Arrow 1-2 indicates the activity A. Activity and its time are written as shown. In many cases activity is indicated in terms of nodes attached. Say activity A could be indicated as 1-2. So

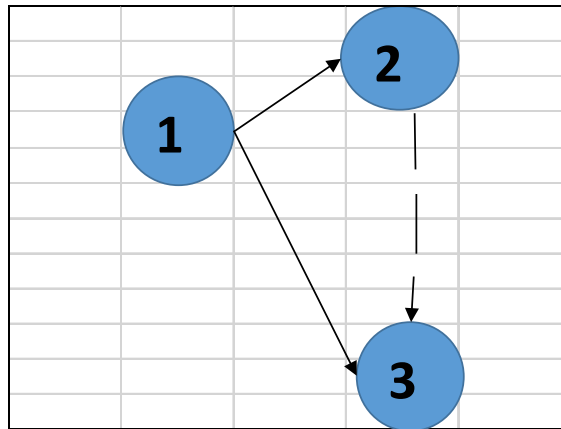
- Each activity must have a preceding and succeeding event
- An activity is numerically denoted by the pair of preceding and succeeding events
- Each event should have a distinct number and normally the number at the head of the arrow is greater than that in tail
- There should be no loops in the project network. A situation like the following is not permissible



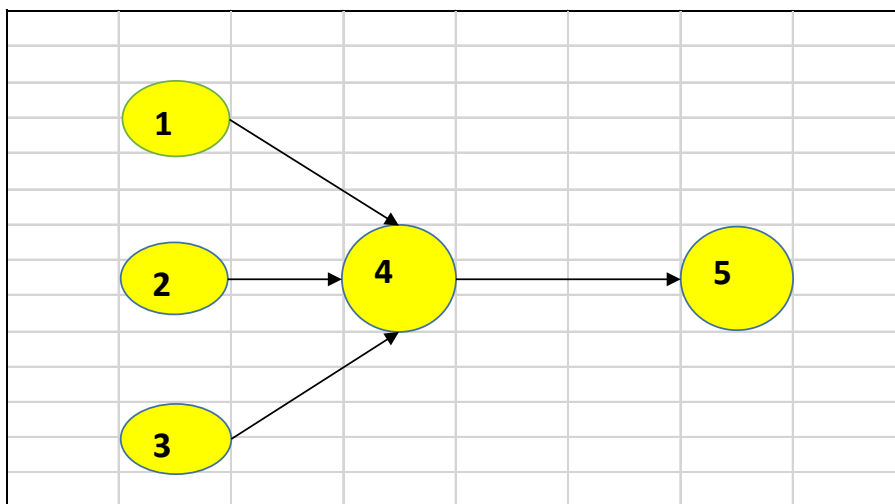
- Not more than one activity can have the same preceding and succeeding events. i.e. following not permissible



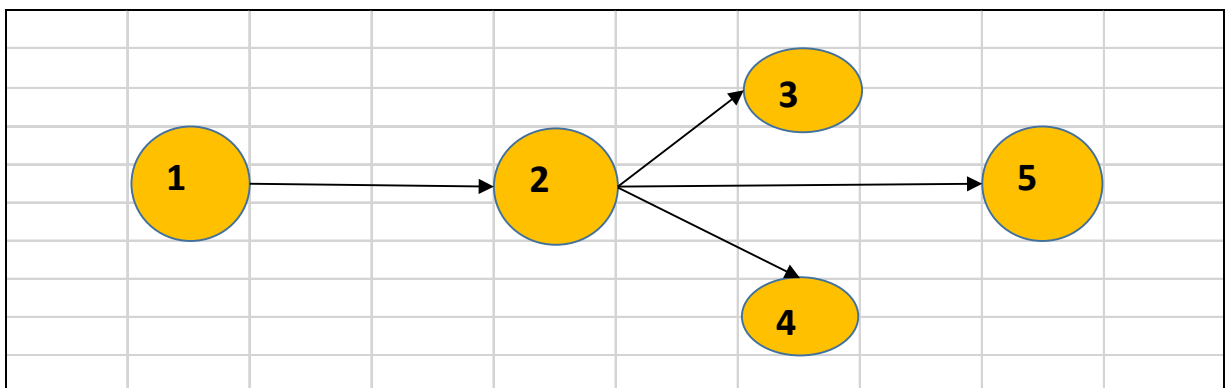
- To ensure that each activity is uniquely numbered it may be necessary sometimes to introduce dummy activities like following



- Activity 2-3 is dummy which is an imaginary activity, can be accomplished in zero time without consuming any resources. But an efficient network must contain minimum no of dummies
- When a number of activities terminate at one point, it indicates that no activity emanating from that event may start unless all activities terminating there have been completed. Two figures may emerge as follows



Activity 4-5 cannot be started unless activities 1-4, 2-4 and 3-4 are completed. Event 4 is called merged event



Activities 2-3, 2-5 & 2-4 cannot be started unless activity 1-2 is completed. Event 2 is called burst event

Network analysis plays an important role in project management and Critical path method (CPM) is one of the important network analysis techniques used to assist managers involved in project management.

CPM is most appropriately used in projects in which the activity duration are known with certainty. Not only the amount of time needed to complete the various factors of the project but also the amounts of resources required for performing each of the activities are assumed to be known. This technique is basically concerned with obtaining the tradeoffs between the project duration and cost.

Initial step in CPM project management process is the determination of all specific activities that comprise the project and their interdependence relationship.

Let us take a simple example

Activity	Time
1-2	13
1-3	12
2-4	2
3-4	8
2-5	15
4-5	2

The initial step for the above problem is to draw the network diagram.

Then we have to compute for each event:

EOT = Earliest Occurrence Time;

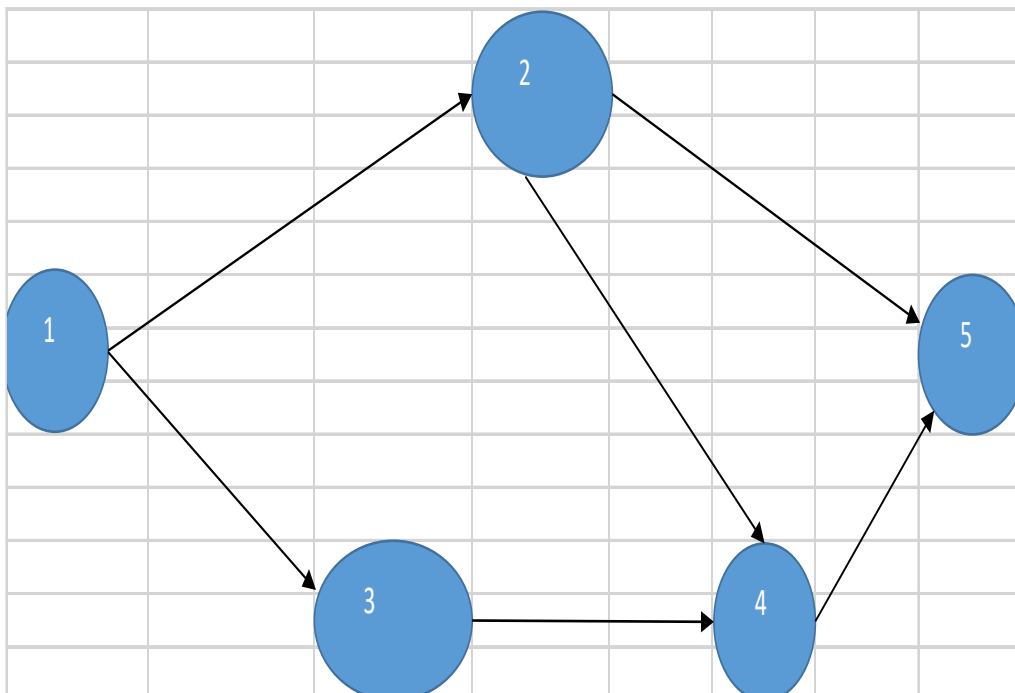
LOT = Latest Occurrence Time;

Then we have to compute for each activity:

EST, EFT= Earliest Starting Time/ Earliest Finishing Time;

LST, LFT= Latest Starting Time/Latest Finishing time;

The details now as follows:



Activity	Time	Event	EOT	LOT	Slack
1-2	13	1	0	0	0
1-3	12	2	13	13	0
2-4	2	3	12	18	6
3-4	8	4	20	26	6
2-5	15	5	28	28	0
4-5	2				

EOT of an event $i = EOT(i) = \text{Max}[EOT(k) + d(k, i)]$

Where $EOT(k)$ = earliest occurrence time of event k , where k precedes i and there may be several k 's;

$d(k, i)$ = duration of activity (k, i) ;

LOT of an event $i = LOT(i) = \text{Min}[LOT(k) - d(k, i)]$

Where $LOT(k)$ = latest occurrence time of event k , where k follows i and there may be several k 's;

$d(k, i)$ = duration of activity (k, i) ;

Slack of an event = $LOT - EOT$;

Events with 0 slack falls on the critical path.

Critical path starts with the beginning event, terminates with the end event and is marked by events which have a zero slack.

So in the above diagram there are following paths starting from first event 1 and ends up with last event 5:

- A) Path 1-2-5;
- B) Path 1-3-4-5;
- C) Path 1-2-4-5;

Out of these three paths only path (A) has all the events with 0 slack. In path B event (4) has not zero slack. Similarly in path (C) also event (4) has nonzero slack.

So path (A) is the critical path.

Besides slack, $LFT - EST$ of each activity must be equal to duration. If this condition is not fulfilled then the concerned activity will not fall in critical path

Now we could determine different floats of respective activities. To compute floats we require to calculate EST/EFT and LST/LFT .

$EST(i, j) = EOT(i)$;

$EFT(i, j) = EOT(i) + d(i, j)$;

$LFT(i, j) = LOT(j)$;

$LST(i, j) = LOT(j) - d(i, j)$;

With these formulas in hand the details of different activities for our sample problem are as follows:

Activity	EST	EFT	LST	LFT
1-2	0	13	0	13
1-3	0	12	6	18
2-4	13	15	24	26
3-4	12	20	18	26
2-5	13	28	13	28
4-5	20	22	26	28

From here we could calculate floats of different activities. Different floats are

Total float of activity (i, j) = LOT of (j) – EOT of (i) – d (i, j);

Free float of activity (i, j) = EOT of (j) – EOT of (i) – d (i, j);

Independent float of activity (i, j) = EOT of (j) – LOT of (i) – d (i, j);

Details of float for our sample example:

Activity	Total Float	Free Float	Independent Float
1-2	0	0	0
1-3	6	0	0
2-4	11	5	5
3-4	6	0	-6
2-5	0	0	0
4-5	6	6	0

Total float of an activity is the extra time available to complete the activity if it is started as early as possible and finished as late as possible. Activities which do not have a float under these conditions, the most favourable one, are critical to the project and hence lie on the critical path.

The free float of an activity is the extra time available to complete the activity if all activities commence as early as possible.

The independent float of an activity is the extra time available to complete the activity when the activity is started at the LOT of its preceding event and completed by the EOT of the succeeding event. This is the most adverse condition and when an activity has a positive independent float it means that the activity has cushion irrespective of what happens elsewhere.

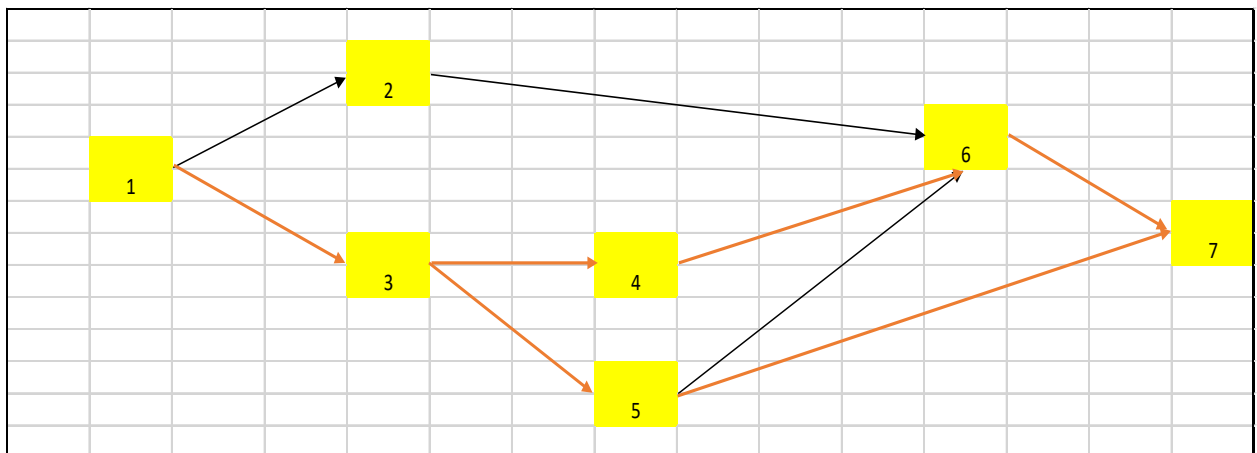
Independent float of an activity may be negative but the total float and free float can never be negative.

Let us take another example:

Information on the activities required for a project is as follows:

Name	A	B	C	D	E	F	G	H	I
Activity node	1-2	1-3	2-6	3-4	3-5	4-6	5-6	5-7	6-7
Duration(days)	4	6	8	7	4	6	5	19	10

Compute for each EOT/LOT, EST/EFT, LST/LFT, different floats and critical path



Activity	Duration	Event	EOT	LOT	SLACK	EST	EFT	LST	LFT	TF	FF	IF
1-2	4	1	0	0	0	0	4	7	11	7	0	0
1-3	6	2	4	11	7	0	6	0	6	0	0	0
2-6	8	3	6	6	0	4	12	11	19	7	7	0
3-4	7	4	13	13	0	6	13	6	13	0	0	0
3-5	4	5	10	10	0	6	10	6	10	0	0	0
4-6	6	6	19	19	0	13	19	13	19	0	0	0
5-6	5	7	29	29	0	10	15	14	19	4	4	4
5-7	19					10	29	10	29	0	0	0
6-7	10					19	29	19	29	0	0	0

WRT slack path 1-3-4-6-7, path 1-3-5-6-7 & 1-3-5-7 should be critical path												
But besides slack Difference of LFT-EST of each activity must be equal to duration of the activity. If it is not then that particular activity will not fall on critical path												
Activity	LFT	EST	Difference	Duration								
1-3	6	0	6	6								
3-4	13	6	7	7								
3-5	10	6	4	4								
4-6	19	13	6	6								
5-6	19	10	9	5	event 5 and 6 has zero slack but path 5-6 will not fall under critical path							
5-7	29	10	19	19	as for this activity Difference of LFT-EST=9 is not equal to duration.							
6-7	29	19	10	10	So activity 5- 6 is not following on Critical path							

Suggestions:

This lesson could be used as an aid to teaching on Project Management in study notes. Concept of Project Management, Monitoring and Control is vital in studying Operations Management. These discussions are in addition to knowledge imparted by study guide. For Proper understanding read supplementary readings by referring Operations Management by R.S. Russell & B.W. Taylor; Operations Management by J Stevenson.

Best Wishes.

Topic

Module 1:

Accounting for Shares
and Debentures

Module 8:

Auditing of Different
Types of Undertakings

INTERMEDIATE

Group II - Paper-10

Corporate Accounting and Auditing (CAA)

Section A: Corporate Accounting

Topic: Redemption of Preference Shares

Multiple Choice Questions:

1. A company cannot redeem Preference shares unless they are:
 - A. fully called up
 - B. fully paid up
 - C. issued at par
 - D. issued at discount
2. At present, a company can issue preference shares which is :
 - A. irredeemable
 - B. redeemable after the expiry of 20 years from the date of issue
 - C. redeemable before the expiry of 20 years from the date of issue
 - D. redeemable after the expiry of 25 years from the date of issue
3. Which of the following reserves cannot be utilized for transfer to Capital Redemption Reserve account?
 - A. General Reserve
 - B. Profit And Loss Account Balance
 - C. Dividend Equalization Reserve
 - D. Securities Premium
4. In case of issue of shares at a premium for the purpose of redemption of preference shares, the term 'proceeds' shall mean:
 - A. face value of shares issued
 - B. face value of shares issued less expenses on issue of shares
 - C. face value of shares issued plus premium on issue of such shares
 - D. none of the above
5. Which of the following sources are not permitted for the purpose of redemption of preference shares?
 - A. proceeds from issue of equity shares
 - B. proceeds from issue of preference shares
 - C. proceeds from issue of rights shares
 - D. proceeds from issue of debentures
6. A company can use Capital Redemption Reserve only for issuing:
 - A. rights shares
 - B. partly paid-up bonus shares
 - C. preference shares
 - D. fully paid-up bonus shares
7. A partly paid-up preference share can be redeemed:
 - A. after the permission from Company Law Board
 - B. after making them fully paid up
 - C. after passing a special resolution
 - D. after the permission of board of directors

Answer: 1-B; 2-C; 3-D; 4-A; 5-D; 6-B; 7-B

Comprehensive Problems

Problem 1

On 31.03.2024, the books of XYZ Ltd showed the following balances:

Particulars	₹
60,000 Equity shares of ₹ 10 each fully paid	6,00,000
10,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid	10,00,000
2,000, 8% Redeemable Preference Shares of ₹ 100 each, ₹ 70 paid up	1,40,000
General Reserve	3,00,000
Balance of Profit	6,40,000
Securities Premium	60,000
Investment	4,80,000
Cash at Bank	1,58,400

On 1st April 2024, the Board decided to redeem the preference shares at a premium of 8%. In order to pay off the preference shareholders the company also decided to dispose of the investments, use company's fund and to raise the balance by the issue of sufficient number of Equity Shares of ₹ 10 each at a premium of ₹ 1 per share subject to leaving a minimum bank balance ₹ 38,400 after such redemption. Investments were sold at ₹ 4,32,000.

Determine the number of equity shares to be issued and show necessary journal entries to give effect of the redemption.

Solution:

(1) Calculation for no. of shares to be issued:

Particulars	₹
Cash balance at present	1,58,400
(+) sale proceeds of investments	4,32,000
	5,90,400
(-) Cash to be kept	38,400
Cash available for redemption	5,52,000
Cash required for redemption (10000*100*108%)	10,80,000
Cash from new share issue (10,80,000 – 5,52,000)	5,28,000
No. of new shares to be issued (5,28,000/11)	48,000

In the books of XYZ Ltd.

Journal Entries

Date	Particulars	Dr. Amount	Cr. Amount
01.04.21	10% Red. Pref. Sh. Cap. A/C.....Dr Premium on Red. Of Pref. Shares A/C To Pref. Shareholders A/C	10,00,000 80,000	10,80,000
01.04.21	Bank A/C.....Dr Loss on sale of Investments A/C.....Dr To Investments A/C	4,32,000 48,000	4,80,000
01.04.21	P/L A/c.....Dr To Loss on sale of Investments A/C	48,000	48,000
01.04.21	Bank A/C.....Dr To Eq. Share Capital A/C To Securities Premium A/C	5,28,000	4,80,000 48,000
01.04.21	Pref. sh. Holders A/C.....Dr To Bank A/C	10,80,000	10,80,000
01.04.21	Securities Premium A/C.....Dr P/L A/c.....Dr To Premium on Red. Of Pref. Shares A/C	60,000 20,000	80,000
01.04.21	General Reserve A/C.....Dr P/L A/C.....Dr To Cap. Red. Reserve A/C	3,00,000 2,20,000	5,20,000

Workings:

(2) Premium on redemption:	
Premium required (10000*100*8%)	80,000
(-) existing Securities premium bal.	<u>60,000</u>
Arranged from P/L	<u>20,000</u>

(3) Transfer to CRR:	
Face value of redemption	10,00,000
(-) proceeds from fresh issue	<u>4,80,000</u>
Utilized from reserves	5,20,000
(-) General Reserve	<u>3,00,000</u>
From P/L A/C	2,20,000

Note: 2000, 8% Preference shares which are partly paid are not allowed to be redeemed until they become fully paid.

Section B: Auditing

Topic: Auditing of Different Types of Undertakings

Comprehensive Question

Question:

How will you, as an auditor, conduct audit of income and expenditure of a hospital?

Solution:

The auditor shall consider the following points while examining the income of a hospital:

1. *Cash collections:* The auditor should check the cash collections as entered in the cash book, with the receipt counterfoils and other evidence. He should also check the bill registers of patients to see that the bills have been correctly prepared.

2. *Free bed facility:* He should see that bills have been issued to all patients from whom any amount was recoverable according to the rules of the hospital. Since, in some cases, hospitals also provide a limited number of free bed facilities, the auditor should also ensure that free bed facilities were extended to the patients only in terms of hospital regulations.

3. *Income from property and investments:* A hospital may sometimes has landed properties which it offers on rent. Additionally, it may have investments out of the funds it earns. The auditor should refer to the properties and investment registers to see that all the incomes that should have been recovered by way of rent from properties, dividend and interest on securities, etc. have been collected.

4. *Legacies and donations:* Hospitals are often found to have legacies which refer to an amount of money or property left to someone in a will. Additionally, hospitals also receive donations from philanthropic

institutions and wealthy individuals. The auditor should ascertain those legacies and donation received for a specific purpose have been so utilized.

5. *Grants received:* Hospitals often receive grants from government and other private institutions. The auditor should verify that the grants received, if any, have been duly accounted for. He should also ensure that the refund in respect of taxes deducted has been claimed.

6. *Income from other sources:* The auditor should verify the income of the hospital from any other sources, with reference to the source of income, e.g. X-rays lab, MRI services, blood testing lab, rehabilitation centre etc.

The auditor shall consider the following points while examining the expenditure of a hospital:

1. *Distinction between capital and revenue expenditure:* The auditor should see that proper distinction has been made in the accounts between capital expenditure and revenue expenditure.

2. *Purchase and sale of assets:* Purchase and sale of movable as well as immovable properties should be verified with the help of relevant documents, such as purchase deed etc. The auditor should assure himself about their existence through physical verification at a particular point of time.

3. *Vouching of expenses:* The auditor should vouch all the expenses including the capital expenditure. He should verify that the capital expenditure has been incurred only with the prior sanction of the Managing Committee.

4. *Depreciation on fixed assets:* He should see that depreciation at appropriate rates has been written off against all the fixed assets.

Topic

Module 7:

Financing Decisions of
a Firm

Module 10:

Data Presentation:
Visualisation and
Graphical Presentation

INTERMEDIATE

Group II - Paper-11

Financial
Management and
Business Data
Analytics (FMDA)

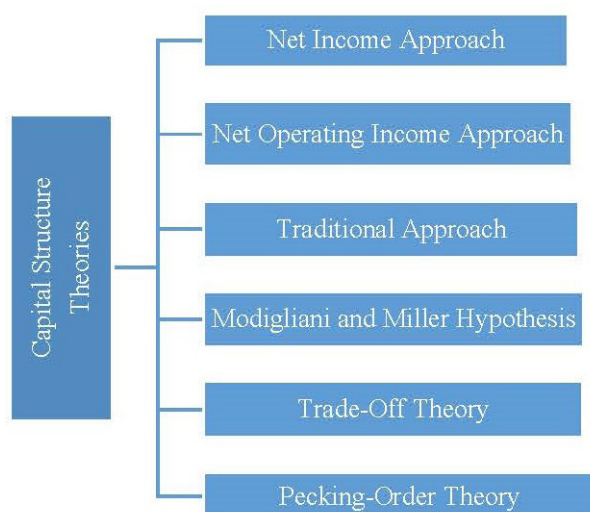
Subject: Financial Management and Business Data Analytics

Capital Structure Theories

Capital Structure Theories

Capital structure is the combination of capitals from different sources of finance. It explains the relationship between the following variables:

- (i) Debt and Equity
- (ii) Cost of each component of capital
- (iii) Impact of leverage
- (iv) Overall cost of capital
- (v) Value of the firm



1. Net Income (NI) Approach:

$$\text{Market Value of Equity (E)} = \frac{\text{EBT}}{\text{Cost of Equity}}$$

$$\text{Market Value of Debt (D)} = \frac{\text{Interest}}{\text{Cost of Debt}}$$

$$\text{Market Value of Firm (V)} = \text{E} + \text{D}$$

$$\text{Overall Cost of Capital (K}_o\text{) [WACC]} = \frac{\text{EBIT}}{\text{Cost of Equity}}$$

2. Net Operating Income (NOI) Approach:

$$\text{Market Value of Firm (V)} = \frac{\text{EBIT}}{\text{WACC}}$$

$$\text{Market Value of Debt (D)} = \frac{\text{Interest}}{\text{Cost of Debt}}$$

$$\text{Market Value of Equity (E)} = \text{V} - \text{D}$$

$$\text{Overall Cost of Capital (K}_o\text{)} = \frac{\text{EBIT}}{\text{Cost of Equity}}$$

$$\text{Cost of Equity Capital (K}_e\text{)} = \frac{\text{EBT}}{\text{Value of Equity}}$$

3. Traditional Theory Approach:

The computation of K_o is the same of NI Approach, except that K_e and K_d differ for different degrees of Debt-Equity Mix. The least K_o should be selected for the optimal capital structure.

4. Modigliani and Miller Hypothesis

The Modigliani – Miller hypothesis is identical with the Net Operating Income Approach. Modigliani and Miller argued that, in the absence of taxes the cost of capital and the value of the firm are not affected by the changes in capital structure. In other words, capital structure decisions are irrelevant and value of the firm is independent of debt – equity mix. The theory states that the firm's value is not dependent on the choice of capital structure or financing decisions of the firm.

Proposition I

According to M – M, for the firms in the same risk class, the total market value is independent of capital structure and is determined by capitalising net operating income by the rate appropriate to that risk class. Proposition I can be expressed as follows:

$$V = S + D = X / K_o = \text{NOI} / K_o$$

Where, V = The market value of the firm

S = The market value of equity

D = The market value of debt

Proposition II

M – M's proposition II defines cost of equity. According to them, for any firm in a given risk class, the cost of equity is equal to the constant average cost of capital (K_o) plus a premium for the financial risk, which is equal to debt – equity ratio times the spread between average cost and cost of debt.

Thus, cost of equity is:

$$K_e = K_o + (K_o - K_d) \times D/S$$

Where, K_e = Cost of equity; K_o = Average cost of capital

D/S = Debt – Equity ratio; K_d = Cost of debt

5. Trade-Off Theory:

The trade of theory focuses on the use of debt finance up to the optimum level, by balancing the cost debt with the benefits of debt.

Cost of debt finance include:

- (i) Explicit cost of debt (interest expenses)
- (ii) Cost of financial distress financial distress which include bankruptcy costs and non-bankruptcy costs.

Benefits of debt finance include

- (i) Saving/reduction in agency costs
- (ii) Tax benefits/ savings due to interest expense
- (iii) Leveraging effect of debt usage on EPS and MPS

6. Pecking Order Theory:

This theory suggests that the form should be used low-cost funds in order to minimize weighted average cost of capital (WACC) and maximise its value.

Example 1

X Ltd. and Y Ltd. are in the same risk class, and are identical in every respect except that X Ltd. uses debt, while Y Ltd. does not. The levered firm has ₹ 9,00,000 debentures, carrying 10% rate of interest. Both the firms earn 20% operating profit on their total assets of ₹ 15 lakhs.

Assume perfect capital markets, rational investors and so on; a tax rate of 35% and capitalisation rate of 15% for an all-equity company.

- (i) Compute the value of firms X and Y using the Net Income (NI) Approach.
- (ii) Compute the value of each firm using the Net Operating Income (NOI) Approach.
- (iii) Using the NOI Approach, calculate the overall cost of capital (k₀) for firms X and Y.
- (iv) Which of these two firms has an optimal capital structure according to the NOI Approach? Why?

Solution:

(a) Valuation of firms under NI approach

Particulars	X Ltd.	Y Ltd.
EBIT (₹)	3,00,000	3,00,000
Less: Interest (₹)	90,000	-

Taxable Income (₹)	2,10,000	3,00,000
Less: Taxes (₹)	73,500	1,05,000
Earnings for equity shareholders (₹)	1,36,500	1,95,000
Equity capitalisation rate (k _e)	0.15	0.15
Market value of equity (E) (₹)	9,10,000	13,00,000
Market value of debt (D) (₹)	9,00,000	—
Total value of firm (V) (₹)	18,10,000	13,00,000

(b) Valuation of firm under NOI Approach

$$V_y = \frac{₹3,00,000 (1 - 0.35)}{0.15}$$

$$V_x = ₹ 13,00,000 + ₹ 9,00,000 (0.35) = ₹ 16,15,000$$

(c) Calculation of overall cost of capital (k₀) for firms X Ltd. and Y Ltd.

$$k_0 = k_d(0.65) \left[\frac{₹ 9,00,000}{₹ 16,15,000} \right] + k_e(0.191) \left[\frac{₹ 7,15,000}{₹ 16,15,000} \right]$$

$$= 12.10\%$$

Similarly, k_{0y} would be 15%.

(d) Neither firm has an optimum capital structure according to the NOI Approach. Under the MM assumptions, the optimum capital structure requires 100% debt.

Workings:

EBIT	₹ 3,00,000
Less: Interest	₹ 90,000
Taxable Income	₹ 2,10,000
Less; Taxes	₹ 73,500
NI	₹1,36,000
Value of firm (V) as determined in (ii)	₹16,15,000
Value of Debt (D)	₹ 9,00,000
Value of Equity (E) (V-D)	₹ 7,15,000

$$k_e = \left[\frac{₹ 1,35,000}{₹ 7,15,000} \right] \times 100 = 19.1\%$$

$$k_d = 0.10 (1 - 0.35) = 6.5\%$$

Multiple Choice Questions

1. Each of the following is not a valid assumption of MM approach to capital structure?

- (a) Securities are infinitely divisible
- (b) Lack of free flow of information
- (c) Transactions costs are zero
- (d) No transaction

Answer (b)

2. Calculate the value of firm according to the NI approach. The firm expects a net operating income of ₹ 80,000. It has ₹ 2,00,000, 8% Debentures. The equity capitalization rate is 10%. (ignore income tax).

- (a) ₹8,40,000
- (b) ₹8,60,000
- (c) ₹8,80,000
- (d) ₹8,90,000

Answer (a)

3. X Ltd. is considering investment in a project that requires ₹50 lakhs. Either the firm can invest the entire amount through equity shares of ₹100 each or it can arrange 10% bank loan of ₹30 lakhs and invest remaining amount equity shares of ₹100 each. Assume tax rate is 30%. The indifference point of these two options will be:

- (a) ₹3,40,000
- (b) ₹3,58,288
- (c) ₹3,68,000
- (d) ₹3,88,888

Answer (d)

4. Following data is available for Pink Ltd.

Financial Leverage	2.1
Operating Leverage	3.1
Interest Charges	₹ 20 lakhs
Tax rate	40%
Variable cost	60% of sales

What is sales value?

- (a) ₹2,00,00,000
- (b) ₹2,70,00,000
- (c) ₹3,00,00,000
- (d) ₹3,50,00,000

Answer (c)

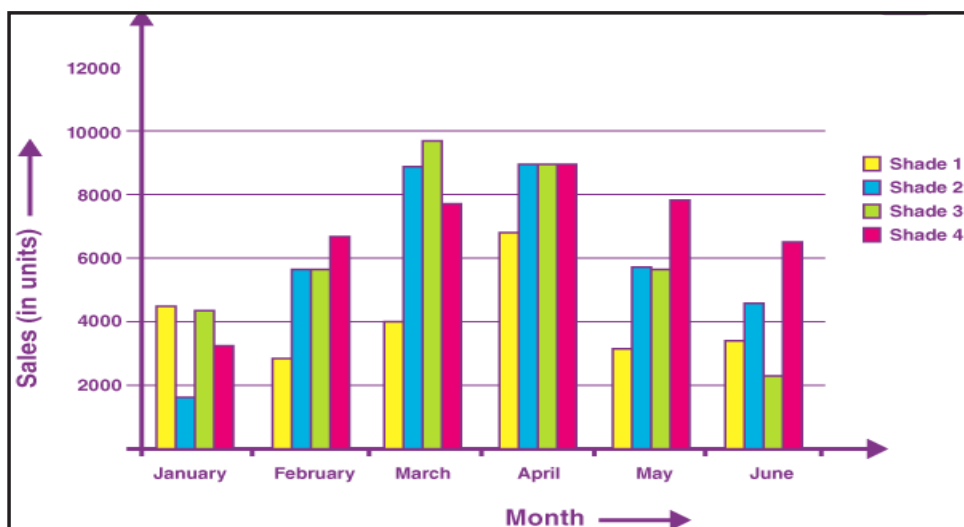
5. E Ltd. earns ₹ 10 per share is capitalised at a rate of 10% and has a rate of return on investment is 20%. If dividend payout ratio is 50%, what should be the price per share according to Walter's Model.

- (a) ₹150
- (b) ₹170
- (c) ₹190
- (d) ₹200

Answer (a)

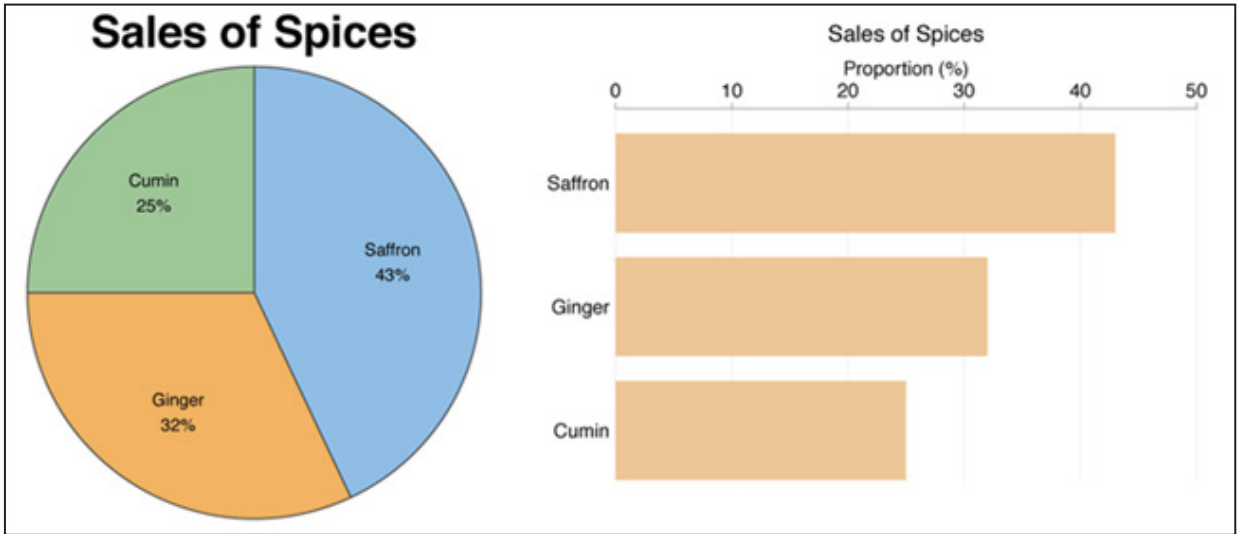
Data Analytics**(Data Presentation: Visualisation and Graphical Presentation)****BAR CHART**

A bar chart or bar graph is a chart or graph that presents categorical data with rectangular bars with heights or lengths proportional to the values that they represent. The bars can be plotted vertically or horizontally. A vertical bar chart is sometimes called a column chart.



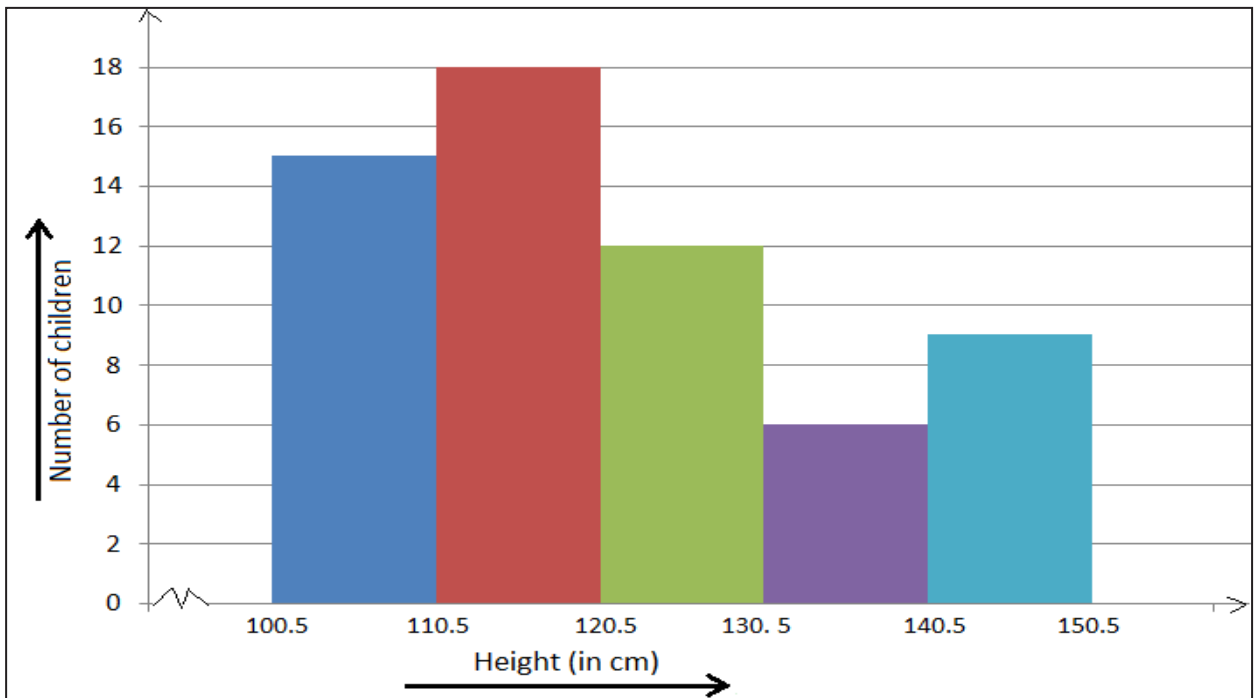
PIE CHART

A pie chart is a circular statistical graphic which is divided into slices to illustrate numerical proportion. In a pie chart, the arc length of each slice is proportional to the quantity it represents.



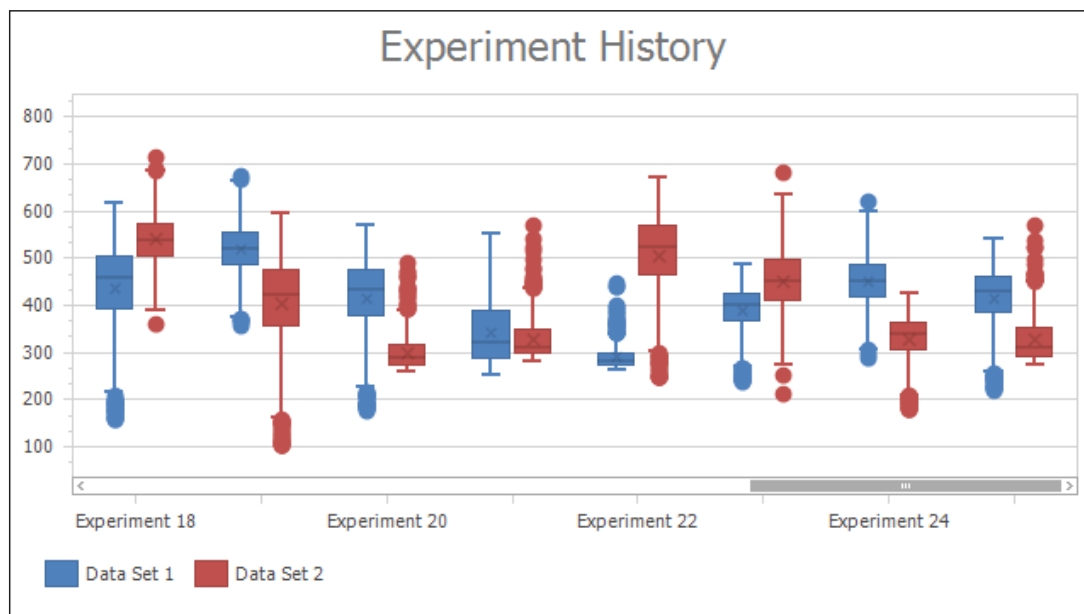
HISTOGRAMS

It is a perfect Presentation of the spread of numerical data. The main differentiation that separates data graphs and histograms are the gaps in the data graphs.



BOX PLOTS

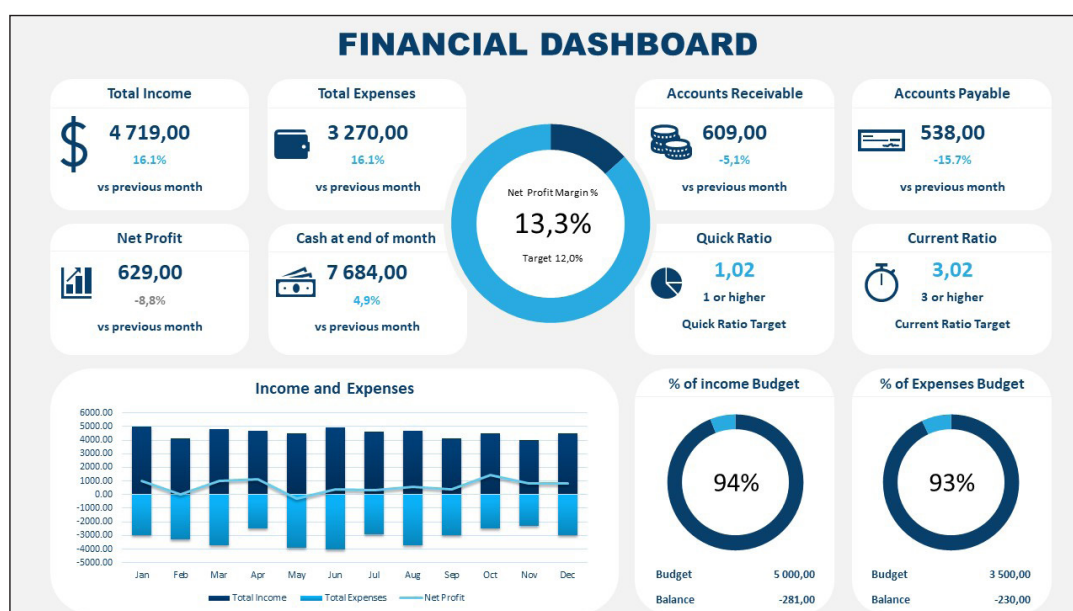
Box plot or Box-plot is a way of representing groups of numerical data through quartiles. Data Presentation is easier with this style of graph dealing with the extraction of data to the minutes of difference.



Source: <https://analyticstraininghub.com/data-presentation-types-importance/>

DASHBOARD

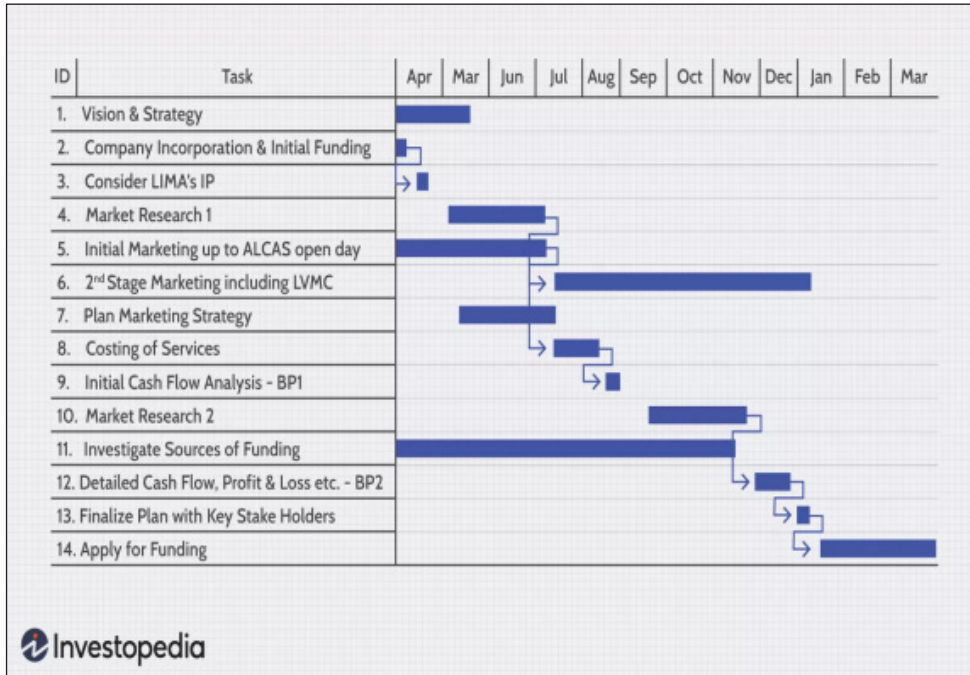
A dashboard is a way of displaying various types of visual data in one place. Usually, a dashboard is intended to convey different, but related information in an easy-to-digest form. Dashboards are useful across different industries and verticals because they're highly customizable. They can include data of all sorts with varying date ranges to help you understand: what happened, why it happened, what may happen, and what action you should take.



<https://slidemodel.com/templates/financial-dashboard-powerpoint-template/>

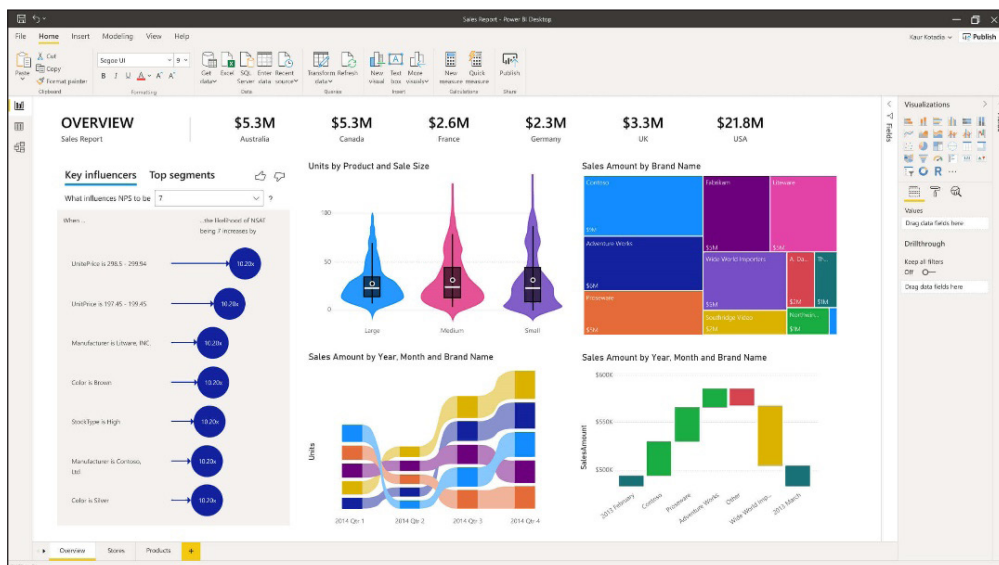
GANTT CHART

A Gantt chart is a project management tool that illustrates work completed over a period of time in relation to the time planned for the work. A Gantt chart can include the start and end dates of tasks, milestones, dependencies between tasks, assignees, and more. It is a visualization that helps in scheduling, managing, and monitoring specific tasks and resources in a project.



MICROSOFT POWER BI

Power BI is a collection of software services, apps, and connectors that work together to turn unrelated sources of data into coherent, visually immersive, and interactive insights. Data might be an Excel spreadsheet, or a collection of cloud-based and on-premises hybrid data warehouses. Power BI easily connect data sources, visualize and discover what’s important, and share that with anyone or everyone want.



Source: <https://www.microsoft.com/en-us/power-platform/products/power-bi>

Topic

Module 9:

Responsibility
Accounting

Module 10:

Decision Theory

INTERMEDIATE

Group II - Paper-12

Management Accounting (MA)

Module 9: Responsibility Accounting

Responsibility accounting is a management control system designed to assign and evaluate performance by dividing an organization into distinct segments, each with specific responsibilities. This approach delegates authority to individuals or departments, holding them accountable for their respective areas. The organization is divided into cost centers, revenue centers, profit centers, and investment centers, each with assigned budgets. Managers are assessed based on their ability to achieve or surpass these budgeted targets.

This system encourages the decentralization of decision-making, promoting more effective and efficient management practices. It also emphasizes the importance of regular communication and feedback to ensure alignment with organizational goals. Despite its benefits, such as fostering goal alignment and efficient resource management, responsibility accounting can lead to sub-optimization, where individual goals may conflict with overall organizational objectives. In essence, responsibility accounting serves as a crucial tool for performance measurement and control within organizations.

Key Control Functions Enabled by Responsibility Accounting System

A responsibility accounting system supports organizational unit managers in five critical control functions:

- 1. Planning:** This system assists in formulating plans by setting budgets and standards. It helps communicate expectations and delegate authority throughout the organization.
- 2. Data Gathering:** The system organizes actual performance data in line with the planned objectives, capturing and summarizing information for each distinct unit within the organization.
- 3. Monitoring Variances:** It involves regular comparisons between planned and actual data. Responsibility reports are generated for subordinate managers, showcasing actual performance against flexible budget targets.
- 4. Managerial Influence:** Managers address significant variances by pinpointing their causes and implementing corrective measures. Responsibility reports often reveal operational discrepancies to top management.
- 5. Continuous Comparison and Response:** The system ensures an ongoing cycle of data comparison and response. Regular analysis and corrective actions are taken to maintain alignment with organizational goals.

Assumptions of Responsibility Accounting

The responsibility accounting system is grounded in several key assumptions:

1. Specific areas of responsibility are defined, and managers are accountable for these defined areas.
2. Managers are responsible only for items and activities over which they have a significant degree of direct control.
3. Managers actively participate in establishing the goals or budgets against which their performance is measured.
4. Goals set for each area of responsibility are expected to be attainable through efficient and effective performance.
5. Control reports should contain significant information related to each area of responsibility.
6. Responsibility centre managers are expected to strive for the accomplishment of the budgets and objectives established for their respective areas of responsibility.

Responsibility Centre

A responsibility center is a distinct organizational unit or subunit within a larger organization that is headed by a manager and has its own set of responsibilities. Responsibility centers are classified based on the nature of the responsibilities assigned to them, and they play a crucial role in responsibility accounting, which is a management control system.

There are four main types of responsibility centers:

- 1. Cost Centre:** Cost centres are dedicated to cost control, with managers held accountable for overseeing and managing associated costs. Their responsibility involves maintaining the same output or service levels while efficiently managing and controlling costs within their designated centre.
- 2. Revenue Centre:** Revenue centres concentrate on revenue generation, with managers tasked with the responsibility of increasing sales or revenue within their designated centre. They are accountable for implementing strategies that enhance the financial performance of their specific area.
- 3. Profit Centre or Earnings Centre:** Profit centres have a dual focus on both revenue generation and cost control. Managers in profit centres bear the responsibility for ensuring the overall profitability of their centre by effectively managing both revenues and costs. Their role encompasses a holistic approach to financial performance within their designated area.

- 4. Investment Centre:** In investment centres, managers are responsible for generating revenue, controlling costs, and managing invested capital. They are held accountable for the efficient use of capital and are evaluated based on financial metrics like return on investment (ROI).

Preparation of Responsibility Report

The preparation of a responsibility report is crucial for summarizing and analyzing the performance of a specific responsibility center. It compares actual outcomes with budgeted or expected figures and is integral to responsibility accounting, helping evaluate managerial performance. Here's a streamlined process for preparing a responsibility report:

- 1. Identify the Responsibility Center:** Determine the specific unit or department to be evaluated.
- 2. Gather Actual Performance Data:** Collect current performance data relevant to the responsibility center.
- 3. Classify Data According to Budget Categories:** Organize the collected data based on the established budget categories.
- 4. Prepare a Performance Report:** Create a detailed report showing actual performance against budgeted figures.
- 5. Highlight and Categorize Variances:** Identify and mark variances between actual and budgeted results, noting whether they are favorable or unfavorable.
- 6. Provide Explanations for Significant Variances:** Offer detailed explanations for major variances to understand their causes.
- 7. Distribute the Report:** Share the report with relevant stakeholders, including managers and top executives.
- 8. Evaluate Performance:** Assess the performance of the responsibility center based on the report findings.
- 9. Encourage Feedback and Discussion:** Promote dialogue and feedback on the report to gain insights and perspectives.
- 10. Use Insights for Continuous Improvement:** Utilize the feedback and analysis to make informed decisions and drive ongoing improvements.

This structured approach ensures that responsibility reports effectively evaluate and enhance managerial performance, contributing to better decision-making and organizational efficiency.

MCQ:

- What is the primary purpose of responsibility accounting?
 - To manage the overall profits of the company.
 - To report on how well managers have fulfilled their responsibilities.
 - To track the number of employees in each department.
 - To allocate resources equally across all departments.
- Responsibility accounting primarily measures which two aspects of responsibility centers?
 - Costs and expenses.
 - Budgets and actual results.
 - Revenues and sales.
 - Employee performance and satisfaction.
- In a company Department A recorded loss in the first half of the current year. The sale of department is ₹ 1,23,000 and uncontrollable costs are ₹ 1,39,000, Advise the management whether its operations should be continued or terminated.
 - Continued
 - Terminated
 - Insufficient information
 - None of the above
- In responsibility accounting, what is a 'responsibility centre'?
 - A division of the company where revenue and costs are accumulated and reported.
 - A location where all financial data of the company is stored.
 - A department focused on corporate social responsibility initiatives.
 - An external agency auditing the company's financial performance.
- What is the premise on which responsibility accounting operates?
 - Managers should be responsible for the performance of their subordinates only.
 - Managers should be held responsible for all activities within their responsibility center.
 - Only top-level managers are accountable for financial outcomes.
 - Managers are responsible solely for achieving sales targets.
- Which type of information should responsibility reports include to meet the needs of subordinate managers?

- a) Only financial data.
 - b) Only operational data.
 - c) Both monetary and nonmonetary information.
 - d) Historical financial information only.
7. In a decentralized organization, what role does responsibility accounting play?
 - a) It helps organization to focus on human resources.
 - b) It acts as the key management control tool.
 - c) It limits the authority of lower-level managers.
 - d) It focuses only on the company's profit margins.
 8. How has the emphasis in organizational planning shifted in recent years?
 - a) From focusing on economic resources to recognizing the value of human resources.
 - b) From human resources to exclusively optimizing financial performance.
 - c) From decentralizing to centralizing authority.
 - d) From team-based structures to hierarchical models.
 9. In a control report of Department Z, it is mentioned as indirect materials are ₹ 1,000, indirect labor ₹ 200, Overtime Charges ₹ 200, Depreciation on equipment ₹ 600, Allocated factory overhead (20% of factory space) ₹ 500, Allocated overhead of repair shop is ₹ 1,000. Determine total costs treating Department Z as a responsibility center.
 - a) ₹ 5,000
 - b) ₹ 4,500
 - c) ₹ 4,000
 - d) ₹ 2,500
 10. In responsibility accounting, what is the concept of 'management by exception'?
 - a) Managers are focused on achieving exceptional profits.
 - b) Managers concentrate on important deviations from standards and budgets.
 - c) Managers are responsible for all activities without any exceptions.
 - d) Managers are allowed to set their own goals without oversight.
 11. If the sale price of a product - ₹ 100, direct material- ₹30, manufacturing cost- ₹ 10 variable cost - ₹ 60 then what will be the contribution of product.
 - a) 72
 - b) 60
 - c) 70
 - d) 40

12. ABC Ltd has two departments- production department and purchase department but due to the fault of purchase department the production department has to incurred 60,000 more in production. In an organization using responsibility accounting where the additional cost would be assigned?
 - a) Production department
 - b) Purchase department
 - c) 50 % in production and 50% in marketing department
 - d) None of the above

Answer:

1	2	3	4	5	6	7	8	9	10	11	12
b	b	c	a	b	c	b	a	d	b	d	b

Fill in the blanks

1. _____ center's performance is often measured by the return on investment.
2. Responsibility accounting is also known as _____ accounting and _____ accounting.
3. The primary function of a _____ center is to generate revenues without direct control over the costs.
4. In a _____ center, the manager is responsible for both generating revenue and controlling expenses.
5. Net income equals to Segment margin less unallocated common _____ cost.

Answer:

1	Investment	2	profitability; activity
3	revenue	4	profit
5	fixed		

State True or False

1. In responsibility accounting, only monetary information is included in responsibility reports.
2. Responsibility accounting is unsuitable for decentralized organizations.
3. The investment center concept requires managers to be accountable for revenues, costs, and investments.
4. In a responsibility accounting system, each individual in an organization ideally reports to multiple bosses.
5. Revenue centers can be problematic if they focus only on generating revenue without considering the cost of obtaining it.

Answer:

1	2	3	4	5
F	F	T	F	T

Module 10.2: Decisions Making under Risk

Introduction

Decision making under risk is a crucial aspect of both personal and professional life, where choices must be made despite uncertain outcomes. Unlike situations of complete uncertainty, decision making under risk involves scenarios where the probabilities of different outcomes are known. This process integrates various concepts such as expected value, risk aversion, and utility, enabling individuals and organizations to evaluate potential risks and rewards systematically. By employing methods like decision trees, Monte Carlo simulations, and sensitivity analysis, decision makers can make more informed and rational choices, balancing potential gains against the inherent risks.

It is a pivotal aspect of cost and management accounting, where managers must make informed choices despite the uncertainty of future outcomes. In this context, decisions often revolve around budgeting, investment, pricing, and resource allocation, where understanding and managing risk is crucial for financial stability and strategic success. By leveraging concepts such as expected value, variance, and utility, managers can evaluate potential financial impacts and their probabilities. Tools like decision trees, sensitivity analysis, and Monte Carlo simulations are instrumental in assessing risks and optimizing decisions, helping businesses achieve their financial objectives while mitigating potential downsides.

Probability Theory

Probability theory is a branch of mathematics that quantifies uncertainty and likelihood in various phenomena. It provides a framework to analyze random events and predict their outcomes based on given information or assumptions. Key concepts include the probability of events, conditional probability (probability of an event given another event has occurred), independence of events, and expected value (weighted average of possible outcomes).

Two important aspects of Probability

When the weather forecaster says there is a 40% probability that it will rain today, it also implicitly means there is a 60% probability that it will not rain. This illustrates the two basic requirements of probability:

- i) The probability values assigned to each of the possible outcomes must be between 0 and 1; and
- ii) The probable values assigned to all of the possible outcomes must total 1.

Terms used in Probability

- i) **Independent events** are events where the occurrence or non-occurrence of one event does not affect the probability of the other event occurring.
- ii) **Mutually exclusive events** are events that cannot occur simultaneously; if one event happens, the other cannot.
- iii) **Joint probability** refers to the probability of two (or more) events occurring simultaneously.
- iv) **Conditional probability** is the probability of an event occurring given that another event has already occurred.
- v) **Expected value**, also known as expected return, is a concept in probability theory and decision-making that represents the average outcome of a random variable weighted by its probabilities of occurrence.
- vi) **Investment appraisal** involves evaluating the potential profitability and feasibility of an investment project.
- vii) **Risk in investment appraisal** refers to the uncertainty surrounding these cash flows and other variables.
- viii) **Risk assessment** involves identifying potential risks, estimating their probabilities and impacts, and incorporating them into the appraisal process to make more informed decisions about investments.
- ix) **Variance** measures how much the values in a dataset differ from the mean (average) value.
- x) **Standard deviation** is the square root of variance.
- xi) **Expected value** represents the weighted average of all possible outcomes, where each outcome is multiplied by its probability of occurrence.

Decision Making with Probabilities

Decision making with probabilities involves using probabilities to assess uncertainty, calculate expected values, evaluate risks, and choose optimal strategies. It provides a structured approach to handling uncertainty in decision environments, guiding informed and rational choices based on probabilistic assessments of potential outcomes. The expected value (EV) of a decision alternative is calculated as follows:

$$\text{EV (alternative)} = (\text{probability of first state of nature}) \times (\text{outcome of that state of nature}) + (\text{probability of second state of nature}) \times (\text{outcome of the second state of nature}) + \dots \text{ for all states of nature.}$$

Decision makers use expected value to evaluate alternatives and select the option with the highest expected return, aiming to optimize outcomes under uncertainty.

MCQ

1. Which of the following is a key characteristic of decision making under risk?
 - (a) Outcomes are certain.
 - (b) Probabilities of outcomes are unknown.
 - (c) Probabilities of outcomes are known.
 - (d) Only one outcome is possible.
2. In decision making under risk, what is the primary tool used to analyze different options?
 - (a) SWOT Analysis
 - (b) Decision Tree
 - (c) PEST Analysis
 - (d) Balanced Scorecard
3. What is expected value in the context of decision making under risk?
 - (a) The value of the worst possible outcome.
 - (b) The weighted average of all possible outcomes.
 - (c) The most likely outcome.
 - (d) The value of the best possible outcome.
4. Which of the following methods considers both the probabilities of outcomes and their potential impacts?
 - (a) Sensitivity Analysis
 - (b) Scenario Analysis
 - (c) Expected Monetary Value Analysis
 - (d) Root Cause Analysis
5. What is the primary purpose of a decision matrix?
 - (a) To evaluate options based on a single criterion.
 - (b) To outline the steps in the decision-making process.
 - (c) To compare options based on multiple criteria and their weights.
 - (d) To calculate the breakeven point.
6. In the context of risk management, what does “risk mitigation” refer to?
 - (a) Accepting all risks associated with a decision.
 - (b) Ignoring potential risks.
 - (c) Taking steps to reduce the impact or likelihood of risks.
 - (d) Transferring the risk to another party.
7. Objective probabilities are typically derived from:
 - (a) Personal beliefs and perspectives.
 - (b) Statistical analyses and historical data.
 - (c) Managerial judgments and forecasts.
 - (d) Uncertainty and risk assessments.
8. A priori probabilities are based on:
 - (a) Managerial insights.
 - (b) Personal opinions.
 - (c) Inherent symmetries.
 - (d) Market trends.
9. Subjective probabilities are characterized by:
 - (a) Being mathematically calculated.
 - (b) Reflecting real-world data.
 - (c) Being uniform across different individuals.
 - (d) Depending on individual beliefs and perspectives.
10. When a weather forecaster predicts a 60% chance of rain, the complementary probability of no rain is:
 - (a) 0.4
 - (b) 1.0
 - (c) 0.6
 - (d) 0.5
11. Events A and B are independent if:
 - (a) They cannot occur simultaneously.
 - (b) The occurrence of one does not affect the probability of the other.
 - (c) They always occur together.
 - (d) They are mutually exclusive.
12. Mutually exclusive events mean that:
 - (a) Both events can occur simultaneously.
 - (b) The occurrence of one event impacts the occurrence of the other.

- (c) Only one event can occur at a time.
- (d) The events are statistically significant.
13. If the probability of Event X is 0.3 and the probability of Event Y is 0.4, and they are independent events, the joint probability of both events occurring is:
- (a) 0.7
- (b) 0.12
- (c) 0.16
- (d) 0.72
14. Conditional probability is defined as:
- (a) The probability of one event given the occurrence of another event.
- (b) The total probability of all possible outcomes.
- (c) The probability of independent events occurring simultaneously.
- (d) The probability of mutually exclusive events occurring.
15. What does the expected value (or expected return) represent in decision making under risk?
- (a) The highest possible outcome of an action
- (b) The most likely outcome of an action
- (c) A weighted average of possible outcomes, considering their probabilities
- (d) The guaranteed outcome of an action

Answer:

1	2	3	4	5	6	7	8	9	10	11	12
b	b	a	b	a	c	b	c	d	c	a	c
13	14	15									
b	a	c									

Fill in the blanks

1. The probable value for each possible outcome must be between _____.

2. _____ method assumes that each possible outcome has an equal probability of occurring.
3. The _____ of an action is found by multiplying the probability of each potential outcome by its payoff.
4. The decision maker denotes the likelihood of happening/ not happening of an event in terms of _____.
5. Coefficient of variation is the _____ measure of dispersion.

Answer:

1	0 and 1	2	Classical Method
3	expected value	4	probabilities
5	relative		

True and False

1. All the probabilities for all the possible outcomes must total 1.
2. Subjective Method is used when neither the classical nor the relative frequency methods can be used.
3. It is possible to calculate a weighted average for a continuous probability distribution.
4. The variance and standard deviation both give an idea of the variability of the possible values about the mean.
5. Standard error is not the measure of variability of a sample, used as an estimate of the variability of the population from which the sample is drawn.

Answer:

1	2	3	4	5
T	T	F	T	F

CMA FINAL COURSE

Syllabus 2022

Topic

Module 11:
Laws and
Regulations related
to Anti-Money
Laundering

FINAL

Group III - Paper-13

Corporate and
Economic Laws
(CEL)

A BRIEF INSIGHT ON THE PREVENTION OF MONEY LAUNDERING ACT, 2002

The Prevention of Money Laundering Act, 2002 is a Parliament of India Act enacted by the NDA government to prevent money laundering and to provide for the confiscation of property obtained through money laundering. The Prevention of the Money Laundering Act and the Rules notified thereunder went into effect on July 1, 2005. The government recently amended the Act to give the Enforcement Directorate (ED) even more authority.

MONEY LAUNDERING – INTRODUCTION

Money laundering refers to the systematic process by which, funds derived from illicit activities, commonly known as black money, are acquired and camouflaged to appear as legal funds, ultimately transforming into, what is termed as, white money. This intricate process involves the movement of laundered funds through various channels and stages of conversion and transfer, strategically designed to legitimize the money and ultimately deposit it into a legally recognized institution, such as a bank.

The goal of a large number of criminal activities is to generate profit for an individual or a group. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. Illegal arms sales, smuggling, and other organized crime, including drug trafficking and prostitution rings, can generate huge amounts of money. Embezzlement, insider trading, bribery and computer fraud schemes can also produce large profits and create the incentive to “legitimize” the ill-gotten gains through money laundering. The money so generated is tainted and is in the nature of ‘dirty money’. Money Laundering is the process of conversion of such proceeds of crime, the ‘dirty money’, to make it appear as ‘legitimate’ money.

In the PMLA, 2002, money laundering has been defined as “any process or activity connected with proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it as untainted property”.

COMMON TYPES OF MONEY LAUNDERING

Some of the most common forms of money laundering are –

- 1) Hawala.
- 2) Shell companies & trusts.
- 3) Fake invoicing.
- 4) Trade-based laundering.

- 5) Real estate.
- 6) Gambling.
- 7) Cash intensive business.
- 8) Fictional loans.
- 9) Bulk cash smuggling.
- 10) Round-tripping.

HOW DOES MONEY LAUNDERING TAKE PLACE?

The process of Money Laundering generally involves the following three stages –

- 1) **Placement** → The Money Launderer, who is holding the money generated from criminal activities, introduces the illegal funds into the financial systems. This might be done by breaking up large amount of cash into less conspicuous smaller sums which are deposited directly into a Bank Account or by purchasing a series of instruments such as Cheques, Bank Drafts etc., which are then collected and deposited into one or more accounts at another location.
- 2) **Layering** → The second stage of Money Laundering is layering. In this stage, the Money Launderer typically engages in a series of continuous conversions or movements of funds, within the financial or banking system by way of numerous accounts, so as to hide their true origin and to distance them from their criminal source. The Money Launderer may use various channels for movement of funds, like a series of Bank Accounts, sometimes spread across the globe, especially in those jurisdictions which do not co-operate in anti-Money Laundering investigations.
- 3) **Integration** → Having successfully processed his criminal profits through the first two stages of Money Laundering, the Launderer then moves to this third stage in which the funds reach the legitimate economy, after getting inseparably mixed with the legitimate money earned through legal sources of income. The Money Launderer might then choose to invest the funds into real estate, business ventures & luxury assets, etc. so that he can enjoy the laundered money, without any fear of law enforcement agencies.

The above three steps may not always follow each other. At times, illegal money may be mixed with legitimate money, even prior to placement in the financial system. In certain cash rich businesses, like Casinos (Gambling) and Real Estate, the proceeds of crime may be invested without entering the mainstream financial system at all.

OBJECTIVES OF THE PREVENTION OF MAONEY LAUNDERING ACT, 2002

Money laundering has plagued not only India's financial system but also the financial systems of a plethora of other countries, posing a serious threat to their integrity and sovereignty. As per the Preamble to the Prevention of Money Laundering Act, 2002, the objects sought to be achieved under the Act are –

- 1) To counteract such threats, the parliament enacted an all-encompassing statute, among other things, to combat money laundering and related activities, such as the confiscation of criminal proceeds, the establishment of agencies, ways to combat it, and so on.
- 2) The prevention of the money laundering act also seeks to confiscate and seize assets obtained through money laundering, deal with any miscellaneous matter related to money laundering in India, and propose stringent punishment for offenders.
- 3) The Prevention of Money Laundering Act of 2002 aims to discover and confiscate property acquired by any person through criminal activity so that it cannot be laundered further.

The Directorate of Enforcement in the Department of Revenue, Ministry of Finance is responsible for investigating the cases of offence of money laundering under Prevention of Money Laundering Act, 2002. Financial Intelligence Unit – India (FIU-IND) under the Department of Revenue, Ministry of Finance is the central national agency responsible for receiving, processing, analysing and disseminating information relating to suspect financial transactions to enforcement agencies and foreign FIUs.

MAJOR/SALIENT FEATURES OF THE PMLA, 2002

Key terms of the act are mentioned below –

1) Provision of Punishment for Money-Laundering

The Act expressly states that if a person is found guilty of money laundering in India, he will be sentenced to rigorous imprisonment ranging from 3 to 7 years, and if the proceeds of guilt are related to any of the offences listed in Paragraph 2 of Part A of the Schedule (Offences under the Narcotic Drugs and Psychotropic Substance Act, 1985), the sentence will be increased to 10 years.

2) Powers of attachment of tainted property

Appropriate authorities can temporarily seize property suspected of being “proceeds of crime”

for 180 days, subject to appointment by the Government of India. An independent adjudicating authority must also confirm such an order.

3) Adjudicating Authority

- A. The Adjudicating Authority is the authority appointed by the central government of India via notification to exercise the jurisdiction, powers, and authority set forth in the Prevention of Money Laundering Act, 2002.
- B. It determines whether the seized or related property is involved in money laundering. Furthermore, the adjudicating authority is not bound by any of the procedures specified in the Code of Civil Procedure, 1908, but is guided by natural justice principles and subject to the other provisions of the PMLA, 2002.

4) Burden of Proof

When a person is found guilty of money laundering, he must prove that the alleged proceeds of the crime are, in fact, lawful property.

5) Appellate Tribunal

- A. It is the body appointed by the Government of India to hear appeals from decisions of the adjudicating authority or any other authority established under the Act.
- B. It is worth noting that tribunal decisions can be appealed to the High Court (for that jurisdiction) and then to the Supreme Court.

6) Special Court

- A. Section 43 of the Prevention of Money Laundering Act, 2002 states that the Central Government shall, by notification, assign one or more Courts of Session as the special court(s) for such area(s), or case(s), as may be specified in the notification for the purpose of trial of an offence punishable under Section 4.
- B. However, such assignments are made after consulting with the Chief Justice of the relevant High Court.

7) FIU-IND

The Government of India established the Financial Intelligence Unit-India (FIU-IND) on November 18, 2004, as the central national agency primarily responsible for obtaining, processing, analysing, and disseminating information related to suspect financial transactions. It is an independent body that reports directly to the finance minister-led Economic Intelligence Council (EIC).

OFFENCE OF MONEY LAUNDERING

Sec. 3 of PMLA defines offence of money laundering as, whosoever directly, or indirectly, attempts to indulge, or knowingly assists, or knowingly is a party, or is actually involved in any process, or activity, connected with the proceeds of crime, including its concealment possession, acquisition or use, or projecting, or claiming, as untainted property, shall be guilty of offence of money-laundering. It prescribes obligation of banking companies, financial institutions and intermediaries for verification and maintenance of records of the identity of all its clients and also of all transactions and for furnishing information of such transactions in prescribed form to the Financial Intelligence Unit-India (FIU-IND). It empowers the Director of FIU-IND to impose fine on banking company, financial institution or intermediary if they or any of its officers fails to comply with the provisions of the Act.

SCHEDULED OFFENCES

Any offence listed in Parts A, B, and C of PMLA is a Scheduled offence according to the PMLA. Some of these offences (which may be covered by the PMLA) are extrapolated as follows –

- 1) **Part A** → It includes offences under various acts, such as:
 - A. Indian Penal Code.
 - B. Narcotics Drugs & Psychotropic Substances Act.
 - C. Prevention of Corruption Act.
 - D. Antiquities & Art Treasures Act.
 - E. Copyright Act.
 - F. Trademark Act.
 - G. Wildlife Protection Act.
 - H. Information Technology Act.
- 2) **Part B** → It mentions the Part A offenses, but the value involved in such offenses is ₹ 1 crore or more.
- 3) **Part C** → It addresses transnational crimes and reflects the commitment to combating money laundering across international borders.

PREDICATE OFFENCE

Every Scheduled Offence is a Predicate Offence. The Scheduled Offence is called Predicate Offence and the occurrence of the same is a pre-requisite for initiating investigation into the offence of money laundering.

PUNISHMENT FOR THE OFFENCE OF MONEY LAUNDERING

Chapter II comprises of Sections 3 and 4. Section 3 deals with the offence of money laundering. Section 4 provides for the punishment for Money-Laundering. Whoever commits the offence of money-laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and shall also be liable to fine. But where the proceeds of crime involved in money-laundering relate to any offence specified under Paragraph 2 of Part A of the Schedule, the maximum punishment may extend to Ten Years instead of Seven Years.

PENALTIES UNDER PMLA, 2002

The following are the severe actions that can be taken against a person involved in money laundering –

- 1) Asset seizure/freezing, records, and subsequent attachment of property obtained with criminal proceeds.
- 2) The act's kaleidoscopic scope includes rigorous incarceration for a minimum term of three years, which can be extended to seven years. It could also include a fine (without any limit).

MAJOR LEGISLATIONS COVERED UNDER THE SCHEDULE TO THE PMLA, 2002

- 1) Indian Penal Code, 1860.
- 2) NDPS Act, 1985.
- 3) Unlawful Activities (Prevention) Act, 1967.
- 4) Prevention of Corruption Act, 1988.
- 5) Customs Act, 1962.
- 6) SEBI Act, 1992.
- 7) Copyright Act, 1957.
- 8) Trade Marks Act, 1999.
- 9) Information Technology Act, 2000.
- 10) Explosive Substances Act, 1908.
- 11) Wild Life (Protection) Act, 1972.
- 12) Passport Act, 1967.
- 13) Environment Protection Act, 1986.
- 14) Arms Act, 1959.

PMLA empowers certain officers of the Directorate of Enforcement to carry out investigations in cases involving offence of money laundering and also to attach the property involved in money laundering. PMLA envisages setting up of an Adjudicating Authority to exercise jurisdiction, power and authority conferred by it essentially to confirm attachment or order confiscation of attached properties. It also envisages setting up of

an Appellate Tribunal to hear appeals against the order of the Adjudicating Authority and the authorities like Director FIU-IND.

PMLA envisages designation of one or more courts of sessions as Special Court or Special Courts to try the offences punishable under PMLA and offences with which the accused may, under the Code of Criminal Procedure 1973, be charged at the same trial.

The Act provides for reciprocal arrangements for processes/assistance with regard to accused persons. In order to enlarge the scope of this Act and to achieve the desired objectives, the Act provides for bilateral agreements between countries to cooperate with each other and curb the menace of money laundering. These agreements shall be for the purpose of either enforcing the provisions of this Act or for the exchange of information which shall help in the prevention in the commission of an offence under this Act or the corresponding laws in that foreign State.

PMLA allows Central Government to enter into an agreement with Government of any country outside India for enforcing the provisions of the PMLA, exchange of information for the prevention of any offence under PMLA or under the corresponding law in force in that country or investigation of cases relating to any offence under PMLA.

Special Courts have been set-up in a number of States / UTs by the Central Government to conduct the trial of the offences of money laundering. The authorities under the Act like the Director, Adjudicating Authority and the Appellate Tribunal have been constituted to carry out the proceedings related to attachment and confiscation of any property derived from money laundering.

In certain cases, the Central Government may seek/ provide assistance from/to a contracting State for any investigation or forwarding of evidence collected during the course of such investigation.

The Government has constituted the Financial Intelligence Unit, India, in November, 2004, headed by Director in the rank of a Joint Secretary to the Government of India. The organization has become functional and has started receiving Cash Transaction Reports and Suspicious Transactions Reports from the banking companies etc. in terms of Section 12 of the PMLA.

Powers of investigation and prosecution for offences under the Act have been conferred on the Director, Enforcement Directorate.

In addition, the Adjudicating Authority in terms of section 6 of the Act and the Appellate Tribunal under Section 25 of the Act have also been constituted and have become functional.

ENFORCEMENT DIRECTORATE (ED)

The Directorate of Enforcement was established in the year 1956 with its Headquarters at New Delhi. It is responsible for enforcement of the Foreign Exchange Management Act, 1999 (FEMA) and certain provisions under the Prevention of Money Laundering Act. Work relating to investigation and prosecution of cases under the PMLA has been entrusted to Enforcement Directorate. The Directorate is under the administrative control of Department of Revenue for operational purposes. The policy aspects of the FEMA, its legislation, and its amendments, are within the purview of the Department of Economic Affairs. Policy issues pertaining to PML Act, however, are the responsibility of the Department of Revenue. Before FEMA became effective (June 1, 2000), the Directorate enforced regulations under the Foreign Exchange Regulation Act, 1973.

Functions

- 1) To collect, develop and disseminate intelligence relating to violations of FEMA, 1999, the intelligence inputs are received from various sources such as Central and State Intelligence agencies, complaints etc.
- 2) To investigate suspected violations of the provisions of the FEMA, 1999 relating to activities such as “hawala” foreign exchange racketeering, non-realization of export proceeds, non-repatriation of foreign exchange and other forms of violations under FEMA, 1999.
- 3) To adjudicate cases of violations of the erstwhile FERA, 1973 and FEMA, 1999.
- 4) To realize penalties imposed on conclusion of adjudication proceedings.
- 5) To handle appeals and prosecution cases under the erstwhile FERA, 1973.
- 6) To process and recommend cases for preventive detention under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act (COFEPOSA).
- 7) To undertake survey, search, seizure, arrest, prosecution action etc. against offender of PMLA offence.
- 8) To provide and seek mutual legal assistance to/from contracting states in respect of attachment/confiscation of proceeds of crime as well as in respect of transfer of accused persons under PMLA.

OBLIGATIONS OF THE REPORTING ENTITY (SECTION 12)

- 1) Every reporting entity have to maintain a record of all transactions covered as per the nature and value of which may be prescribed, in such manner as to enable it to reconstruct individual transactions.
- 2) They shall furnish to the Director (FIU) within such time as may be prescribed information relating to such transactions, whether attempted or executed, the nature and value of which may be prescribed.
- 3) They shall verify the identity of its clients in such manner and subject to such conditions as may be prescribed.
- 4) They shall identify the beneficial owner, if any, of such of its clients, as may be prescribed.
- 5) They shall maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients for a period of five years in case of record and information relating to transactions.
- 6) They shall maintain the same for a period of five years after the business relationship between a client and the reporting entity has ended or the account has been closed, whichever is later.

Here 'Reporting Entity' means a banking company, financial institution, intermediary or a person carrying on a designated business or profession Section 2(1) (wa)].

ADJUDICATING AUTHORITY

In terms of Sub-Section (1) of Section 6 of Preventions of Money Laundering Act, 2002, an Adjudicating Authority under PMLA has been constituted to exercise jurisdiction, powers and authority conferred by or under the said Act.

The Authority comprises three Members, one each from the fields of 'Law', 'Administration' and 'Finance or accountancy'. Further, one of the Members is appointed as Chairperson of the Adjudicating Authority. It functions within the Department of Revenue, Ministry of Finance of the Central Government with its headquarters at New Delhi.

Adjudicating Authority exercise jurisdiction, powers and authority conferred by or under the PMLA, 2002. Where the Adjudicating Authority decides that any property is involved in money-laundering, Adjudicating Authority shall, by an order in writing confirm the attachment of the property made or retention of property or record seized (under Sec. 5 of PMLA, 2002).

APPELLATE TRIBUNAL

Under Section 25 of the Prevention of Money Laundering Act, 2002, the Central Government has established an Appellate Tribunal. Section 28(4) of the PMLA provides that the Chairperson or a Member holding a post as such in any other Tribunal, established under any law for the time being in force, in addition to his being the Chairperson or a member of that Tribunal, may be appointed as the Chairperson or a Member, as the case may be, of the Appellate Tribunal under this Act.

The Tribunal consists of a Chairperson and two other Members. The Chairman and one Member of Appellate Tribunal for Forfeited Property (ATFP) holds additional charge of the post of Chairman and Member of Tribunal under PMLA.

Appellate Tribunal has been constituted to hear appeals against the orders of the Adjudicating Authority and the authorities under the said Act.

SPECIAL COURTS

For trial of offence punishable under Section 4 of PMLA, 2002, the Central Government, in consultation with the Chief Justice of the respective High Courts, by notification, has designated one or more Courts of Session as Special Court or Special Courts for such area or areas or for such case or class or group of cases as specified in the notifications. While trying an offence of money laundering under PMLA, 2002, a Special Court has also to try the offences, with which the accused may, under the Code of Criminal Procedure, 1973 (2 of 1974), be charged at the same trial [Section 43].

Notwithstanding anything contained in the Code of Criminal Procedure, 1973 (2 of 1974), an offence of money laundering punishable under Section 4 of PMLA, 2002 and any scheduled offence connected to the offence of money laundering, shall be triable by the Special Court constituted for the area in which the offence has been committed.

SUSPICIOUS TRANSACTION REPORTS (STR)

The Prevention of Money Laundering Act, 2002, and the Rules made thereunder, require every banking company to furnish details of suspicious transactions whether or not made in cash. Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith –

- 1) Gives rise to a reasonable ground of suspicion that it may involve the proceeds or crime, or
- 2) Appears to be made in circumstances of unusual or unjustified complexity, or
- 3) Appears to have no economic rationale or *bona fide* purpose.

TACKLING BLACK MONEY AND MONEY LAUNDERING

Detection of Black Money

Recognizing various limitations under the existing legislation [Income-tax Act, 1961, etc.], the Government enacted a new law; 'The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015', to specifically and effectively tackle the issue of black money stashed away abroad. This has, *inter alia*, provided for more stringent provisions of penalties and prosecutions in respect of black money stashed away abroad. Further, under this law, for the first time the offence of wilful attempt to evade tax, etc. in relation to undisclosed foreign income/assets has been made a Scheduled Offence for the purposes of the Prevention of Money Laundering Act, 2002 (PMLA). This enables attachment and confiscation of the proceeds of crime of wilful attempt to evade such tax, etc., eventually leading to recovery of such undisclosed foreign income and assets/black money stashed away abroad. The new law came into force, with effect from July 1, 2015. Thus, the first assessment year (A.Y.) in respect of the new law is A.Y. 2016-17 which began only on April 1, 2016.

There is no official estimation regarding black money of Indians stacked abroad. However, before the cases involving black money stashed away abroad were subjected to more stringent provisions of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, a one-time three months' compliance window closing on September 30, 2015 was provided under the new law wherein, 648 declarations involving undisclosed foreign assets worth ₹4,164 crore were made. The amount collected by way of tax and penalty in such cases is about ₹2,476 crore.

SUPREME COURT JUDGEMENTS ASSOCIATED WITH PMLA, 2002

In the case of *Vijay Madanlal Choudhury and Others vs. Union of India and Others*¹, it was decided that, the definition of money laundering, under the Prevention of Money Laundering Act (PMLA), 2002 is "very broad," and any activity involving the proceeds of crime is included in the legislation's definition of money laundering.

It was also decided in the same case that, Section 3 of the PMLA must be interpreted to state that, the mere use and possession of proceeds of crime, does not constitute money laundering. There must be something more, as well as a projection.

CONCLUSION

Despite certain obstacles and legal snags, the PMLA has been made stringent enough to combat the threat of money laundering stemming from tainted wealth obtained through dubious means. Several agencies, including the RBI, SEBI, and banks, have been brought on board to disseminate information about such illegal activities. To summarize, the current order is a prime example of the importance of following the proper procedure. The procedure for freezing the property or proceeds under Section 17 of the Prevention of Money Laundering Act, 2002 was given a lot of weight. This demonstrates that the PMLA, 2002 not only prevents money laundering offenses, but also protects those accused under the Act.

MCQs

- When did the Prevention of Money Laundering Act come into force?
 - August 1, 2005
 - August 1, 2009
 - April 1, 2009
 - July 1, 2005
- Whoever commits the offence of money-laundering shall be punishable with rigorous imprisonment for a term which shall not be less than _____ years but which may extend to _____ years and shall also be liable to fine.
 - 3 / 5
 - 5 / 7
 - 3 / 7
 - 3 / 5
- Whosoever directly, or indirectly, attempts to indulge, or knowingly assists, or knowingly is a party, or is actually involved in any process, or activity, connected with the proceeds of crime, including its concealment possession, acquisition or use, or projecting, or claiming, as _____, shall be guilty of offence of money-laundering (Section 3, PMLA).
 - Untainted Property
 - Intentionally Participates
 - Unknowingly Participates
 - Helps to Participate
- Under Section _____, PMLA, the _____ has established an Appellate Tribunal.
 - 26/Central Government
 - 25/State Government
 - 25/Central Government
 - 26/State Government

ANSWERS:

- 1) → D); 2) → C); 3) → A); 4) → C)

¹ Special Leave to Appeal (Crl.) No(s). 4634/2014 and Connected Cases.

Topic

Module 8:

Portfolio Theory
and Practice

Module 11:

Efficient Market
Hypothesis

FINAL

Group III - Paper-14

Strategic Financial Management (SFM)

Section B: Security Analysis and Portfolio Management

Topic: Portfolio Theory and Practice

Multiple Choice Questions

1. If the covariance between the returns on a portfolio BC and returns on the market index is 25 and the variance of returns on the market index is 20, what will be the systematic risk of BC under the variance approach?
- A. 1.25
B. 1.56
C. 5.45
D. 31.25

Answer: (D)

$$\text{Systematic risk} = \beta^2 \sigma_m^2$$

$$\text{Here, } \beta = 25/20 = 1.25$$

$$\text{So, Systematic risk} = (1.25)^2 \times 20 = 31.25$$

• Comprehensive Problems

Problem 1

The expected returns on two stocks for particular market returns are given in the following table:

Market Return	Stock A	Stock B
7%	4%	9%
25%	40%	18%

You are required to calculate:

- (i) The beta of the two stocks.
(ii) The expected return of each stock, if the market return is 60% likely to be 7% and 40% likely to be 25%.
(iii) The security market line (SML), if risk free rate is 7.5% and market return is with likelihood as per (ii).
(iv) The Alpha of the two stocks.

Solution:

- (i) Change in stock return = $\beta \times$ Change in market return
A: $(40 - 4) = \beta \times (25 - 7)$; or, $\beta = 36/18 = 2$
B: $(18 - 9) = \beta \times (25 - 7)$; or, $\beta = 9/18 = 0.5$
- (ii) Expected returns of the stock A: $60\% \times 4 + 40\% \times 40 = 2.4 + 16 = 18.40\%$
Stock B: $60\% \times 9 + 40\% \times 18 = 5.40 + 7.2 = 12.60\%$

- (iii) Expected return of market = $60\% \times 7 + 40\% \times 25 = 4.2 + 10 = 14.20\%$

Security market line SML is the line drawn with betas on x axis and expected return on the y axis and risk-free rate = 7.5 % when $x = 0$, i.e. at zero beta.

$$\text{Expected return based on SML} = y = 7.5\% + \beta (14.20\% - 7.5\%)$$

$$\text{SML: } y = 7.5\% + \beta (6.7)\%$$

- (iv) For stock A, expected return $y = 7.5 + 2 \times 6.7 = 7.5 + 13.4 = 20.9$

$$\text{Average return} = 18.40.$$

$$\text{Alpha of A} = -20.9 + 18.4 = -2.5\%$$

$$\text{For Stock B, expected return } y = 7.5 + 0.5 \times 6.7 = 7.5 + 3.35 = 10.85$$

$$\text{Average return} = 12.60.$$

$$\text{Alpha of B} = -10.85 + 12.60 = 1.75\%$$

Problem 2

During a five-year period, the relevant results for the aggregate market are that the risk-free rate (rf) is 8% and the return on market (rm) is 14%. For that period, the results of five portfolio managers are as follows:

Portfolio Manager	Actual Average Return (%)	Beta (B)
A	13	0.80
B	14	1.05
C	17	1.25
D	13	0.90
E	15	0.95

Using CAPM model, you are required to:

- (i) calculate the expected rate of return for each portfolio manager and compare the actual returns with the expected returns; and
(ii) find which of the managers need to be warned for under-performance?

Solution:

(i) CAPM Equation: $R_j = R_f + \beta (R_m - R_f)$

Where R_j = Expected rate of return R_f = Risk free rate

R_m = Return on Market β = Beta

The expected rates of return are as follows:

Portfolio Manager	Expected Return (%)	Actual Average Return (%)	Difference between Actual & Expected Returns
A	$8\% + 0.80$ ($14\% - 8\%$) = 12.8	13	+ 0.2
B	$8\% + 1.05$ ($14\% - 8\%$) = 14.3	14	- 0.3
C	$8\% + 1.25$ ($14\% - 8\%$) = 15.5	17	+1.5
D	$8\% + 0.90$ ($14\% - 8\%$) = 13.4	13	- 0.4
E	$8\% + 0.95$ ($14\% - 8\%$) = 13.7	15	+1.3

(ii) Managers B and D did not perform up to expectation, they have to be warned.

Problem 3

An investor has the following constituent holdings in his portfolio:

Security	No. of shares	Price per share (₹)	Share Beta
A	400	500	1.4
B	500	750	1.2
C	200	250	1.6

Find the market value weighted average beta of his portfolio.

(ii) If the investor wants a target beta for his portfolio at 0.9, how would he dispose of his securities and replace them with Government securities if he want to sell in the order of risk? Present the revised tabulation of his holding and prove that the target

beta has been achieved by your advice.

(iii) If he is willing to invest further, how much investment should he make in G Sec to make his beta 0.9, without selling any share at all?

Solution:

(i) **Calculation for portfolio beta**

Security	Nos	Price (₹)	Value (₹)	Beta	Weight	Weight x Beta
A	400	500	2,00,000	1.4	0.32	0.448
B	500	750	3,75,000	1.2	0.6	0.72
C	200	250	50,000	1.6	0.08	0.128
Total	1100		625000			1.296

Portfolio's beta based on market value weights is = 1.296

(ii) Target beta = 0.9.

We should first replace the riskiest of the securities with Govt. zero beta securities. Then we go for the next riskier one. Hence, C, being of lower market value should be fully replaced by Govt. securities.

If we assume full of A to be sold, then, $b \times 1.2 = 0.9 \times 625000 = ₹ 562500$. Then, solving, we get $b = 468750$ which is more than ₹ 3,75,000. This means that any of B should not be sold and that A too should not be sold in full.

Hence, $375000 \times 1.2 + a \times 1.4 = 625000 \times 0.9$

$450000 + 1.4 a = 562500$

Or, $a = 112500/1.4 = ₹ 80357$.

₹ 80357 value of A should be retained in the portfolio.

This amounts to $80357/500$

= ₹160.714 shares, which is 161 shares

Section B: Security Analysis and Portfolio Management

Topic: Efficient Market Hypothesis

- **Concept of Efficient Market**

An efficient market is one in which the market price of a security is an unbiased estimate of its true or intrinsic value. Market efficiency does not imply that the market price equals intrinsic value at every point in time. All that it says is that the errors in the market prices are unbiased. This means that the price can deviate from the intrinsic value but the deviations are random and uncorrelated with any observable variable. If the deviations of market price from intrinsic value are random, it is not possible to consistently identify over or under-valued securities.

- **Foundations of Efficient Market Theory**

According to Andrei Shleifer, the foundation of efficient market theory lies in the following three assumptions:

- Investors are rational.
- The deviations from rationality are independent
- Investors analyse mispricing and try to take the benefit of arbitrage.

- **Forms of Market Efficiency**

Eugene Fama suggested that it is useful to describe three forms of efficient market hypothesis (EMH):

weak-form EMH, semi-strong-form EMH, and strong-form EMH.

- Weak-Form Efficient Market:** The weak-form efficient market asserts that security prices fully incorporate all security market information relating to prices, trading volumes, rates of return, block trades, insider transactions, odd-lot transactions, and so on.
- Semi-strong Form Efficient Market:** The semi-strong-form efficient market argues that the security prices fully reflect all public information. They reflect market information (so, the weak-form EMH is subsumed under semi-strong form EMH) as well as non-market information such as macroeconomic data, industry reports, corporate announcements, price-earnings ratios, price-book value ratios, dividend yields, and so on.
- Strong-Form Efficient Market:** The strong-form efficient market contends that security prices reflect all available information, public as well as private. So, the strong-form EMH subsumes both the weak-form EMH and semi-strong-form EMH. The strong-form EMH implies that no group of investors has monopolistic access to information which enables it to earn superior risk-adjusted returns.

Topic

Module 13:

Transfer Pricing

FINAL

Group III - Paper-15

Direct Tax Laws
and International
Taxation (DIT)

Basics of Transfer Pricing

“Transfer Pricing is not an exact science but does require the exercise of judgement on the part of both the tax administration and taxpayer”

Commercial transactions between the different parts of the multinational groups may not be subject to the same market forces shaping relations between the two independent firms. One party transfers goods or services to another for a price. That price is known as “transfer price”. This may be arbitrary and dictated, with no relation to cost and added value, diverge from the market forces. Transfer price is, thus, a price which represents the value of goods or services between independently operating units of an organisation. But, the expression “transfer pricing” generally refers to prices of transactions between associated enterprises which may take place under conditions differing from those taking place between independent enterprises. It refers to the value attached to transfers of goods, services and technology between related entities. It also refers to the value attached to transfers between unrelated parties which are controlled by a common entity.

Suppose a company A purchases goods for ₹ 100 and sells it to its associated company B in another country for ₹ 200, who in turn sells in the open market for ₹

400. Had A sold it direct, it would have made a profit of ₹ 300. But by routing it through B, it restricted it to ₹ 100, permitting B to appropriate the balance. The transaction between A and B is arranged and not governed by market forces. The profit of ₹ 200 is, thereby, shifted to the country of B. The goods is transferred on a price (transfer price) which is arbitrary or dictated (₹ 200), but not on the market price (₹ 400). Thus, the effect of transfer pricing is that the parent company or a specific subsidiary tends to produce insufficient taxable income or excessive loss on a transaction. For instance, profits accruing to the parent can be increased by setting high transfer prices to siphon profits from subsidiaries domiciled in high tax countries, and low transfer prices to move profits to subsidiaries located in low tax jurisdiction. As an example of this, a group which manufacture products in a high tax countries may decide to sell them at a low profit to its affiliate sales company based in a tax haven country. That company would in turn sell the product at an arm’s length price and the resulting (inflated) profit would be subject to little or no tax in that country. The result is revenue loss and also a drain on foreign exchange reserves.

Computation of income from international transaction or specified domestic transaction having regard to arm’s length price [Sec. 92]

The provisions are as under:

Provisions	Example	Treatment	Impact on income
Any income arising from an <i>international transaction</i> shall be computed having regard to the <i>arm’s length price</i> .	X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm’s length price of such goods or services is ₹ 9 lacs	While computing income of X Ltd., ₹ 9 lacs shall be considered as sale value	Income of X Ltd. will be increased by ₹ 4 lacs.
The allowance for any expense or interest arising from an international transaction or specified domestic transaction ¹ shall also be determined having regard to the arm’s length price.	R Ltd. takes a loan of ₹ 20 lacs from an associated enterprise in Ireland @ 20% p.a. whereas the arm’s length rate of interest is 12% p.a.	Interest @ 12% p.a. shall be allowed as deduction to R Ltd.	Income of R Ltd. will be increased by ₹ 1,60,000/-

¹. Any allowance for an expenditure or interest or allocation of any cost or expense or any income in relation to the specified domestic transaction shall be computed having regard to the arm’s length price.

<p>Where in an international transaction or specified domestic transaction,</p> <ul style="list-style-type: none"> two or more <i>associated enterprises</i> enter into a mutual agreement or arrangement for the apportionment of, or any contribution to, any cost incurred in connection with a benefit, service or facility provided to any such enterprises, the cost apportioned to (contributed by), any such enterprise shall be determined having regard to the arm's length price of such benefit, service or facility. 	<p>An enterprise in Germany makes research on a new product and incurred ₹ 50 lacs. Out of this, ₹ 40 lacs has been allocated to its Indian associated enterprises dealing in the same product.</p>	<p>While computing income of Indian enterprise, it will be required to be examined whether the Indian enterprise is deriving proportionate benefit to the research expenditure allocated</p>	<p>If no such benefit is available to the Indian enterprise, total income of such enterprises is suitably increased by disallowing proportionate allocated cost.</p>
<p>The provisions (in any of aforesaid situation) shall not apply in a case where the computation of income or the determination of the allowance for any expense or interest or the determination of any cost or expense allocated or contributed has the <i>effect of reducing the income</i> chargeable to tax or increasing the loss, as the case may be, computed on the basis of entries made in the books of account in respect of the previous year in which the international transaction or specified domestic transaction was entered into.</p>	<p>X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm's length price of such goods or services is ₹ 3 lacs</p>	<p>The provision of transfer pricing is not applicable</p>	<p>No Impact</p>

Arm's length price [Sec. 92F(ii)]

Arm's length price means

- (i) a price which is applied or proposed to be applied in a transaction
- (ii) between persons other than associated enterprises (i.e., unrelated person, resident or non-resident),
- (iii) in uncontrolled conditions.

Taxpoint: *There may be more than one arm's length price.*

Meaning of associated enterprise [Sec. 92A]

Associated enterprise, in relation to another enterprise, means an enterprise:

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

Deemed associated enterprise [Sec. 92A(2)]

For the above purpose, two enterprises shall be deemed to be associated enterprises if, at any time during the previous year fulfil any of the following conditions (if one of the following conditions is not satisfied, then mere participation in management or control or capital of the other enterprise, etc. shall not make them associate):

Equity Holding	Management	Activities	Control
1. $\geq 26\%$ direct / indirect holding by enterprise OR	6. Appointment $> 50\%$ of Directors/one or more Executive Director by an enterprise OR	8. 100% dependence on use of intangibles for manufacture / processing / business	11. One enterprise controlled by an individual and the other by himself or his relative or jointly
2. By same person in each enterprise		9. Direct / indirect supply of $\geq 90\%$ Raw Materials under influenced prices and conditions	12. One enterprise controlled by HUF and the other by - a member of HUF - his relative or - Jointly by member and relative
3. Loan $\geq 51\%$ of Total Assets	7. Appointment by same person in each enterprise	10. Sale under influenced prices and conditions	
4. Guarantees $\geq 10\%$ of debt			
5. $> 10\%$ interest in Firm / AOP / BOI			

Computation of arm's length price [Sec. 92C]

✿ The arm's length price in relation to an international transaction or specified domestic transaction shall be determined by any of the following methods, being the most appropriate method, having regard to the nature of transaction or class of transaction or class of associated persons or functions performed by such persons or such other relevant factors as the Board may prescribe, namely:

Transaction Based Methods

- a. comparable uncontrolled price method;
- b. resale price method;
- c. cost plus method;

Profit Based Methods

- d. profit split method;
- e. transactional net margin method;
- f. such other method as may be prescribed by the Board.

The implementation of these rules is crucial for preventing tax evasion and ensuring that each country receives its fair share of tax revenues from multinational enterprises operating within its jurisdiction. It also promotes transparency and fairness in international trade and investment.

Topic

Module 5:

Evaluating
Performance

FINAL

Group III - Paper-16

Strategic Cost
Management (SCM)

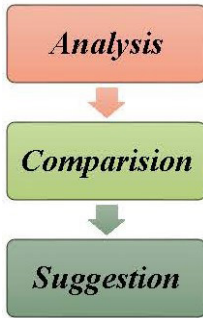
Evaluating Performance: Overview of Variance Analysis

01.00 Evaluating Performance

Evaluating Performance embraces the aspects of analysing the cost data and providing leads for decision making.

The process involves three crucial steps, viz.:

1. Analysis which involves quantitative and qualitative analysis of cost data elementwise;
2. Comparison which involves comparison of the ascertained-actuals with the targets or benchmarks; and
3. Suggestion which involves indicating corrective course of action if actual performance is not in line with the expectations.

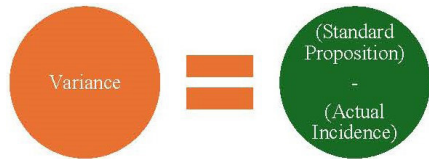


The final outcome of evaluating the performance shall be 'Decision Making' towards achieving the targeted goals.

Budgetary Control and Standard Costing are two important techniques used for evaluating the performance. Variance Analysis plays a significant role under both the techniques.

02.00 Concept of Variance

Variance, by definition, denotes the deviation between the standard proposition and the actual incidence. The proposition could be a preset benchmark, budget or estimate and so on. The concept of variance is intrinsically connected



with planned and actual results and the impact of the difference between these two on the performance of the business entity.

Variance analysis involves breaking down and analyzing the total variance into:

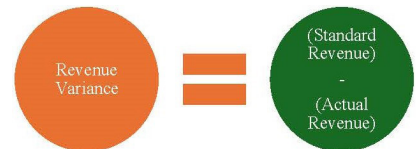
- Quantity:** How much of the variance is caused by using the resources that are different from the standards, i.e., the quantity variance; and
- Rate:** How much of the variance is caused by the cost of the resources being different from the standards, i.e. the rate (price) variance.

The advantages of variance analysis may be summarised as:

- **Insights into Performance:** The main objective of variance analysis is to provide insights into the off-benchmark performance.
- **Concurrent Corrections:** Variance Analysis helps management to improve the operations and correct the errors on a concurrent basis; and deploy the resources more effectively and, thus, control and reduce costs and as also enhancing the revenues.
- **Optimum Productivity:** An important feature of variance analysis is that it drives the enterprise towards quantitative analysis of the inputs and outputs whereby optimum productivity is achieved.
- **Management by Exception:** Variance analysis is a tool that facilitates management by exception.
- **Recalibration:** By recalibrating costs and prices by means of variance analysis, manufacturers can sustain themselves amidst uncertainties.
- **Effective Cost Management:** In an era of global competition, Variance Analysis, certainly, continues to be an efficient tool for effective cost management.

03.00 Revenue Variance

Revenue Variance is the difference between planned, budgeted or standard revenue vis-à-vis the actual revenue generated. It is also known as Sales Variance and, in simple terms, denotes



the difference between the Standard Revenue and the Actual Revenue. The derivation may be expressed as:

$$\text{“Revenue Variance} = (\text{SR} - \text{AR}) = (\text{SQ} \times \text{SP}) - (\text{AQ} \times \text{AP})\text{”}$$

where

SR = Standard Revenue for the standard output;

AR = Actual Revenue for the actual output;

SQ = Standard Quantity of the output;

SP = Standard Price per unit;

AQ = Actual Quantity of the output; and

AP = Actual Price per unit.

Revenue Variance can be subdivided into Revenue

Quantity Variance and Revenue Price Variance. Revenue Quantity Variance denotes the difference between the standard quantity of the output vis-à-vis the actual quantity, both at standard price. The derivation may be expressed as:

$$\text{“Revenue Quantity Variance} = \text{SP (SQ} - \text{AQ)”}$$

where SP = Standard Price per unit;

SQ = Standard Quantity of the output; and

AQ = Actual Quantity of the output.

Revenue Price Variance denotes the difference between the standard price and the actual price for the actual quantity of the output. The derivation may be expressed as:

$$\text{“Revenue Price Variance} = \text{AQ (SP} - \text{AP)”}$$

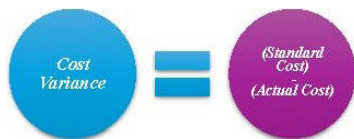
where AQ = Actual Quantity of the output;

SP = Standard Price per unit; and

AP = Actual Price per unit.

04.00 Cost Variance

Cost Variance is the difference between a planned, budgeted or standard cost vis-à-vis the actual cost. In other words, it is the difference between the standard cost and actual cost.



Cost Variances may be categorized element-wise such that as Direct Material Cost Variance, Direct Labour Cost Variance, Direct Expense Variance, Production Overhead Variance, Administration Overhead Variance, Selling Overhead Variance and Distribution Overhead Variance. They can also be broken down behaviour-wise into Variable Cost Variance and Fixed Cost Variance. For any of these categorizations, the key consideration is the convenience of cost control.

The general derivation for cost variance may be expressed as:

$$\text{“Cost Variance} = \text{(SC} - \text{AC)} = \text{(SQ} \times \text{SP)} - \text{(AQ} \times \text{AP)”}$$

where

SC = Standard Cost of the element for standard

production;

AC = Actual Cost of the element for actual production;

SQ = Standard Quantity of the element for standard production;

SP = Standard Price per unit;

AQ = Actual Quantity of the element for actual production; and

AP = Actual Price per unit.

Cost Variance can be subdivided into Usage Variance and Price Variance. Usage Variance denotes the difference between the standard quantity of the element specified for the actual production and the actual quantity used, both at standard price.

The derivation may be expressed as:

$$\text{“Usage Variance} = \text{SP (SQ} - \text{AQ)”}$$

where

SP = Standard Price per unit;

SQ = Standard Quantity of the element needed for the standard output; and

AQ = Actual Quantity of the element consumed.

Usage Variance brings out the deviations in the cost of an element arising from consumption of non-standard elements. Usage Variance is, generally, impacted by the factors of input mix and yield.

Price Variance denotes the difference between the standard price and the actual price for the actual quantity of the element consumed.

The derivation may be expressed as:

$$\text{“Price Variance} = \text{AQ (SP} - \text{AP)”}$$

where AQ = Actual Quantity of the element consumed;

SP = Standard Price per unit; and

AP = Actual Price per unit.

05.00 Problem for Practice

Here follows a problem, chosen from study notes, for practice

05.01 Problem

Calculate material and labour variances from the following:

Particulars	Standard			Actual		
	Quantity (Kg)	₹ Per Kg	Total	Quantity (Kg)	₹ Per Kg	Total
A	400	50	20000	420	45	18900
B	200	20	4000	240	25	6000
C	100	15	1500	90	15	1350
Material Cost	700		25500	750		26250
Normal Loss	25			75		
Output	675			675		
Labour	Hours	₹ per Hr	Total	Hours	₹ per Hr	Total
Male Labour	100	20	2000	120	25	3000
Female Labour	200	15	3000	240	16	3840
Labour Cost			5000			6840
Total Cost			30500			33090

05.02 Solution

a. Calculation of Material Cost Variances:

(i) Workings

RSQ (Revised Standard Quantity) for

$$A = (400 \div 700) \times 750 = 428.57$$

$$B = (200 \div 700) \times 750 = 214.29$$

$$C = (100 \div 700) \times 750 = 107.14$$

Material	SQSP	RSQSP	AQSP	AQAP
A		$428.57 \times 50 = 21429$	$420 \times 50 = 21000$	
B		$214.29 \times 20 = 4286$	$240 \times 20 = 4800$	
C		$107.14 \times 15 = 1607$	$90 \times 15 = 1350$	
Total	₹ 25500	₹ 27322	₹ 27150	₹ 26250

SQSP = Standard Cost of Standard Material = ₹ 25,500

RSQSP = Revised Standard Cost of Material = ₹ 27,322

AQSP = Standard Cost of Actual Material = ₹ 27,150

AQAP = Actual Cost of Material = ₹ 26,250

(ii) Material Cost Variances

Material Yield Variance = (SQSP - RSQSP) = (25,500 - 27,322) = ₹ 1822 (A)

Material Mix Variance = (RSQSP - AQSP) = (27,322 - 27,150) = ₹ 172 (F)

Material Usage Variance = (SQSP - AQSP) = (25,500 - 27,150) = ₹ 1650 (A)

Material Price Variance = (AQSP - AQAP) = (27,150 - 26,250) = ₹ 900 (F)

Material Cost Variance = (SQSP - AQAP) = (25,500 - 26,250) = ₹ 750 (A)

(iii) Check the Answer

Material Usage Variance = (Material Yield Variance + Material Mix Variance)

$$= [1822 (A) + 172 (F)] = ₹ 1650 (A)$$

$$\begin{aligned}\text{Material Cost Variance} &= (\text{Material Usage Variance} + \text{Material Price Variance}) \\ &= [(1650 \text{ (A)} + 900 \text{ (F)})] = ₹ 750 \text{ (A)}\end{aligned}$$

b. Calculation of Labour Cost Variances:

(i) Workings

RSH (Revised Standard Hours) for

$$\text{Men} = (100 \div 700) \times 750 = 107.14$$

$$\text{Women} = (200 \div 700) \times 750 = 214.28$$

Labour	SRSH	SRRSH	SRAH	ARAH
Men		20 x 107.14 = 2143	20 x 120 = 2400	
Women		15 x 214.28 = 3214	15 x 240 = 3600	
Total	₹ 5000	₹ 5357	₹ 6000	₹ 6840

SRRSH = Standard Cost of Standard Labour = ₹ 5000

SRRSH = Revised Standard Cost of Labour = ₹ 5357

SRAH = Standard Cost of Actual Labour = ₹ 6000

ARAH = Actual Cost of Labour = ₹ 6840

(ii) Labour Cost Variances

$$\text{Labour Yield Variance} = (\text{SRSH} - \text{SRRSH}) = (5000 - 5357) = ₹ 357 \text{ (A)}$$

$$\text{Labour Mix variance} = (\text{SRRSH} - \text{SRAH}) = (5357 - 6000) = ₹ 643 \text{ (A)}$$

$$\text{Labour Efficiency Variance} = (\text{SRSH} - \text{SRAH}) = (5000 - 6000) = ₹ 1000 \text{ (A)}$$

$$\text{Labour Rate Variance} = (\text{SRAH} - \text{ARAH}) = (6000 - 6840) = ₹ 840 \text{ (A)}$$

$$\text{Labour Cost Variance} = (\text{SRSH} - \text{ARAH}) = (5000 - 6840) = ₹ 1840 \text{ (A)}$$

(iii) Check the Answer

$$\begin{aligned}\text{Labour Efficiency Variance} &= (\text{Labour Yield Variance} + \text{Labour Mix Variance}) \\ &= [357 \text{ (A)} + 643 \text{ (A)}] = ₹ 1000 \text{ (A)}\end{aligned}$$

$$\begin{aligned}\text{Labour Cost Variance} &= (\text{Labour Efficiency Variance} + \text{Labour Rate Variance}) \\ &= [(1000 \text{ (A)} + 840 \text{ (A)})] = ₹ 1840 \text{ (A)}\end{aligned}$$

Commentary: Checking the answer helps prevention of errors and cross reconciliation.

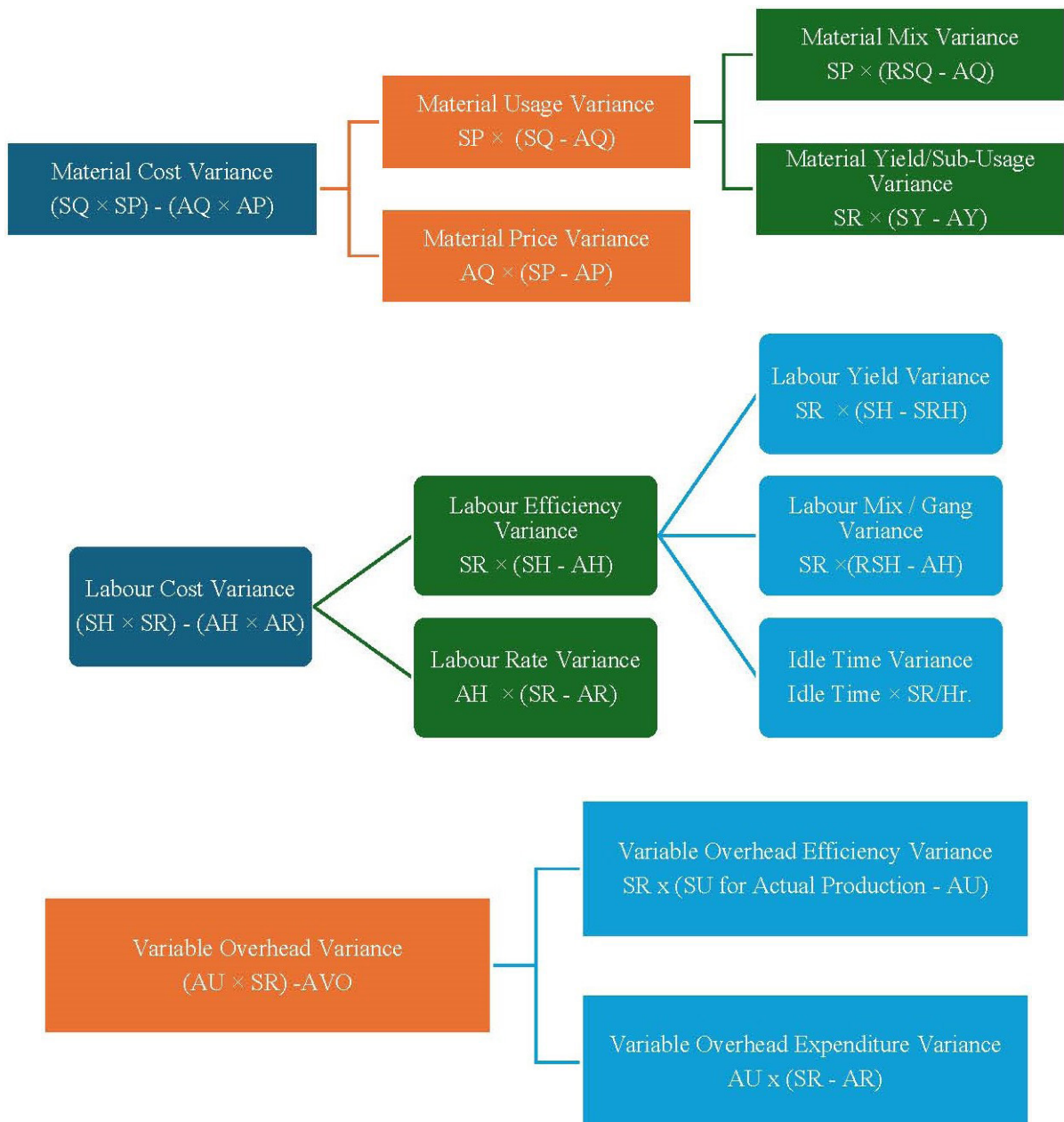
06.00 Terms to Master

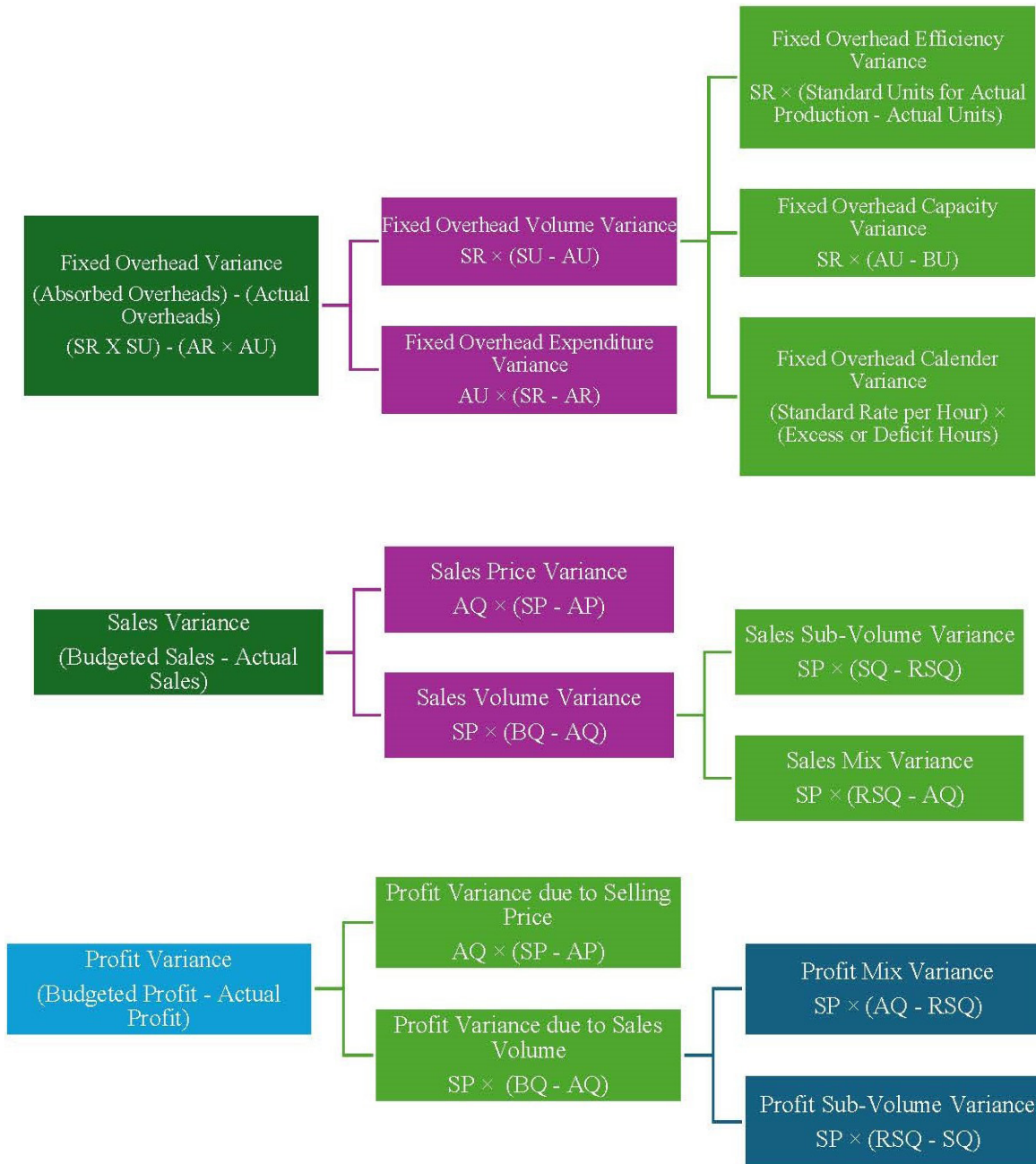
- **Controllable Variance:** Variance is said to be controllable if it is identified as the primary responsibility of a particular person or department.
- **Cost Variance:** Cost Variance is the difference between a planned, budgeted or standard cost vis-à-vis the actual cost.
- **Investigation of Variances:** Investigation of variances implies systematic examination of deviations undertaken for the purpose of initiating corrective actions.
- **Operating Variance:** Operating Variance denotes the deviation between the revised proposition and the actual incidence.
- **Planning Variance:** Planning Variance denotes the deviation between the original proposition and the revised proposition

- **Profit Variance:** Profit Variance is the difference between planned, budgeted or standard profit vis-à-vis the actual profit attained.
- **Revenue Variance:** Revenue Variance is the difference between planned, budgeted or standard revenue vis-à-vis the actual revenue generated.
- **Uncontrollable Variance:** When the variations are due to the factors beyond the control of the concerned person or department, it is said to be uncontrollable.
- **Variance:** Variance denotes the deviation between the standard proposition and the actual incidence. The proposition could be a pre-set benchmark, budget or estimate and so on.

07.00 Formulae for Reference

Furnished hereunder are some formulae used traditionally. CMA fraternity can always improvise on the basis of decision-making needs.





Topic

Module 7:

Cost Audit
Documentation,
Audit Process and
Execution

FINAL

Group IV - Paper-17

Cost and
Management Audit
(CMAD)

COST AND MANAGEMENT AUDIT

1. Cost Audit Process

While undertaking and performing a Cost Audit assignment, the Cost Audit Team (independent auditor) is to consider the following steps.

Understanding of the Assignment

- o Know the Industry and the entity
- o Capacity – licenced and installed, utilization
- o Accounting process (sales , purchase , expense, assets, liabilities etc.) and ERP in use
- o Method of depreciation accounting and cost booking
- o Costing Process followed for cost accumulation by the entity
- o Status of Computerization of entity activities
- o Production /Manufacturing Process and Document flow from the Production Dept.
- o System of cost (especially Overhead) allocation and basis therefor
- o Inventory valuation policy
- o Cost Accounting records
- o Primary and secondary Raw Materials , their sources and Origin
- o Cost of borrowing and total borrowings
- o Understanding the overall system of internal control (including Budgetary control) and validation w.r.t Material Movement, Inventory, bill booking and payment processing, Finished and W.IP/S.F.G declaration, Scrappage, physical verification of inventory and assets,
- o Internal Audit and adequacy
- o Technical and other collaborations- Agreements and deliverables (Royalty)
- o Research and Development (inhouse or external) expenses

Verification

- o Cost of raw material consumed
- o Cost of power and fuel , alternate fuel/energy
- o Employee cost
- o Cost of stores etc.
- o Provision for depreciation

- o Overheads and their allocation
- o Royalty and technical services payment
- o Financial ratios
- o Production data and analysis of capacity utilization
- o Sales (local and global)
- o Abnormal, non-recurring expenses
- o Cost statement
- o Variance Analysis
- o Reconciliation with financial books

2. Management Reporting (Value Addition through Management Audit):-

Assignment :A Cement Manufacturer is worried about operating cost and requested the Management Auditor to review the operation and provide feedback with an expectation of deriving some cost benefits.

Post review of operation, the Management Audit Team submitted the following Report for implementation.

Title : Job and positions need to be re-looked for cost rationalization and process improvement purposes

• Through M/s. Glory Trading Co., total **89** workmen under **8** approved 'job descriptions' were deployed for bagging **1404675 Mt. (2021-22: 1356661 Mt.)** of cement. Bulk sale of cement also carried out from the Unit (**2021-22: 79287 Mt. and 2022-:23: 34093 Mt.**).

‘ **Job description**’ includes (a) **Loader**, (b) **Packer Operator**, (c) **Belt Attendant**, (d) **Tally Checker**, (e) **Silo Attendant**, (f) **Shift Supervisor**, (g) **House Keeping Workmen**, (h) **Electrician/Instrument Technician**.

Packer Operators

• At present **2 Packers** with 32 Sprout are operating at the Unit with a **daily production capacity of 9600 Mt. (@ 4800 Mt. /Packer)**. Out of the 8 ‘job Descriptions’ (described in (a) to (h) above), direct engagement (a to e) and support roles (f to h) are identified. Accordingly, **75** positions are attached with direct operation and **14** with support roles including supervisors, Electrician/ Instrument Technician and House-keeping. ‘House-keeping’ deployments are for General Shift (6.00 am to 6.00 pm for 4-5 person & balance from 9.00 am to 6 pm).

• **Packer Operator** job description includes the following responsibilities to be discharged by each of the Operator. Daily deployment schedule is of **18**

Operators (3/Shift/Packer) in three Shifts for the two Packing Machines. Job descriptions of Operators are -

- Bag feeding in nozzles by two operator i.e one each at each discharge end of double discharge facility.
- Rotation-wise off is taken by the workmen to ensure continuity of discharge operation.
- The aforesaid modus of on and off/rest is mutually settled by the gang.
- Dust cleaning of inside portion of Packers through air pressure Unit/twice per Shift.
- We are given to understand that shift (eight hours) hours includes periodical breaks fixed amongst workmen by maintaining required dispatch target/speed of operation. Since all the four dischargers (2 packers) are on the same floor, by further rationalization of deployment (from prevalent **6 /shift to 5/shift**), possibility of cost reduction of ₹ **1.2 Lacs** p.a/shift (Rate-₹ 320/-per day of 8 hours excluding other benefits like uniform/PF etc.) need to be explored. **There are number of alternates**

of manning by 5 operators in a shift. However, we are appending below two such alternates (many more logical permutations and combinations are possible) to **reduce manpower to 5/shift.**

	B	C	D	E	F	G
Deployment of 5 packer operator between two (2) packers -RGU						
	FEEDING POINTS (discharge)					
Times	A	B	C	D		
6.00	1	2	3	4	5	GETTING REST
6.30					4	GETTING REST
7.00					3	GETTING REST
7.30					2	GETTING REST
8.00					1	GETTING REST
8.30					5	GETTING REST
9.00	2	3	4	1	4	GETTING REST
9.30					3	GETTING REST
10.00					2	GETTING REST
10.30	3	4	5	2	1	GETTING REST
11.00					5	GETTING REST
11.30					4	GETTING REST
12.00					3	GETTING REST
12.30					2	GETTING REST
1.00					1	GETTING REST
1.30					5	GETTING REST

- Our proposition indicates uninterrupted production with 5 workmen (instead of 6 per shift) by maintaining the prevalent off/rest time mutually agreed upon amongst workmen. It is pertinent to mention here that recesses not being planned / projected at the start and last lap of the eight hour shift as per prevalent system.

Silo Attender

- One Silo attender per shift (total 3 nos.) has been deployed to look after the routine operation of silo, removal of lumps, to check normal leakage etc.
- Detail of dispatch of Loose cement captured from Invoice data for 15 months as given under:-

2021-22			2022-23			
Period	Vehicles (No.)	Qty. (MT)	Period	Vehicles (No.)	Qty. (MT)	Increase/(Decrease)
Apr.-Sept.'22	798	43246	Apr.- Sept.'23	454	24563	-344
Oct.-Mar'22	690	36040	Oct.'-Mar.'23	****		
Total	1488	79286		454	24563	-344

- It is clearly evident from the above on comparing the corresponding period, number of vehicles of loose cement (bulk loading) dispatch has declined by 43% (i.e. from 798 vehicles to 454 vehicles).It is not out of place to mention , anticipation of additional despatches and/or others for which extra 'silo attender' was requisitioned suffers from accuracy or turned ineffective.
- In view of the same, deployment decision of 'silo attender' requires a re-look.

House-Keeping(HK)

- Eight house-keeping labour has been deployed for cleaning the area of vehicle bay (covered area), elevator pit, both silo with surrounding area, belt floor, vibrating & packer floor bin.
- As discussed, from October," A "Shift has been called off due to lower dispatch order. Shift "B" & "C" is continuous for meeting the dispatch requirement.
- Requirement of housekeeping is connected with dispatch, requirement of HK labour needs to be reviewed for further rationalization.
- To assess utilization of Packers, shift-wise daily dispatch for both 2021-22 and 2022-23 being reproduced hereunder.

Out of the three shifts (A, B and C); despatches were lowest in 'A' shift for 300 days and 317 days respectively in 2021-22 and 2022-23. Prevalent shift timings are 6 a.m to 2 p.m , 2 p.m to 10 p.m and 10 p.m to 6 a.m. It is pertinent to mention here that shift-wise/daily despatch swings are very high. However, keeping in view of order inflow and time requirement for despatch ; possibility to be explored to discontinuance of 'A' shift or, resorting to changing shift timings from 10 a.m to 6 p.m and 6 p.m to 2 a.m for operating with two shifts need to be explored for achieving a savings of ₹10 Lacs p.a(Minimum)

- As evident from above, plant operating about **60%** of available capacity of 4800 Mt. per Packer Unit in both the years. **It is pertinent to mention here that plant mainly operating between 40%-60% of the capacity.**
- Further, it is observed that in A shift, packer 1 operated 50% & below for 339 & 327 days & Packer 2 for 328 & 324 days in FY 21-22 & 22-23 respectively. By enhancing the utilization p.c. of one packer alternatively, one packer can be kept idle with rationalization of direct manpower grades **(a to e as defined above). Savings to the tune of ₹20 Lacs p.a.** can be achieved. Moreover, the proposed arrangement barring manpower reduction will provide more flexibility in operation by way of changeover time reduction, Equipment life and avoidance of Break-down through intermittent shut downs of Packers, reduction of TAT (Turn Around Time) of Vehicles, reduction in electricity and ancillary cost due to lower operating time of Packers etc. etc.

Recommendation

- Suggested manpower/ position abolition need to be carried out with a view to more efficient working and cost reduction.

3. MCQs on Management Audit

1. Which of the following is NOT a main element of Sales System ?
 - a. Receiving Orders from Customers
 - b. Marketing
 - c. Despatch of Goods and Invoicing
 - d. Recording of Sales and Debtors
2. Which of the following is NOT a main element of a Purchase System?
 - a. Placing Orders
 - b. Receiving Purchase Invoice
 - c. Goods received
 - d. Board decision on approving Capex
3. Which of the following is a component of Cyber Security?
 - a. IOT
 - b. AI
 - c. Database
 - d. Attacks
4. Which of the following is not an inherent limitation of Internal Control System ?
 - a. Management override
 - b. Inefficient IA Dept.
 - c. Collusion
 - d. Friendship
5. Kitchen Order Ticket (KOT) is associated with
 - a. Airline Ticketing
 - b. Food Chain
 - c. IA Tools and Kit
 - d. Restaurant

ANSWER : 1(b) ; 2 (d) ; 3(a) ; 4 (a) ; 5 (d)

Topic

Module 5:

Accounting
for Business
Combinations and
Restructuring

Module 7:

Recent
Developments in
Financial Reporting

FINAL

Group IV - Paper-18

Corporate Financial
Reporting (CFR)

Accounting for Business Combinations and Restructuring/Recent Developments in Financial Reporting

Accounting for Business Combinations and Restructuring

Ind AS 103 on Business Combination and Ind AS 103 Appendix C on Business Combination under Common Control provide for two types of accounting: the former (a) under acquisition method and the later (b) under pooling of interest method.

(a) Under acquisition method: Where one entity (acquirer company) acquires control of one or more businesses (acquiree company or companies). If after business combination the acquiree ceases to exist, it is comparable to ordinary merger where recording of acquisition is made in the books of acquirer and the accounts in the books of acquiree are closed as usual. But when after business combination acquiree continues to exist as a subsidiary, it is to be recorded in the books of the acquirer in two sets, one for consolidated accounts and the other for its separate financial statements i.e., for its stand-alone accounts. One example is shown in Illustration 1.

(b) Under pooling of interest method: If in a business combination all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory, it is a business combination under common control. Common control business combinations will include transactions, such as transfer of subsidiaries or businesses, between entities within a group, where the parties in control of the old companies (transferor companies) are retaining control of the newly formed company (Transferee Company). It is shown in Illustration 2.

Illustration 1:

D Ltd. 60% equity of T Ltd. on 31-03-X1 by issue of 4000 equity shares of ₹ 10, market price ₹ 18 per share. The abstract of balance sheets of the companies on 31-03-X1:

₹ Lakhs

	D	T (book value)	T (fair value)
PPE	9000	4000	7000
Financial Assets		1000	1000
Current Assets	5000	3000	3000
Equity Share Capital	6000	3400	
Other Equity	3000	2600	
Borrowings	3000	1000	1000
Current Liabilities	2000	1000	1000

Pass journal entries in the books of D Ltd. and show balance sheet abstract (both consolidated and separate) after merger.

Solution:

Working Note 1.

	T (Fair Value)
PPE	7000
Financial Assets	1000
Current Assets	3000
Total Assets	11000
Borrowings	1000
Current Liabilities	1000
Total Liabilities	2000
Net Assets = Total Assets – Total Liabilities	9000

Working Note 2.

Purchase Consideration = 4000*18	7200

Working Note 3.

Non-Controlling Interest = 40%*7200/60%	4800
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Working Note .

Goodwill = Purchase Consideration + NCI – Net Assets = 7200 + 4800 - 9000	3000
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Journal in the books of Transferee company D Ltd.

Consolidated set:

PPE	Dr.	7000	
Current Assets	Dr.	3000	
Financial Assets	Dr.	1000	
Goodwill	Dr.	3000	
To Consideration			7200
To Borrowings			1000
To Current Liabilities			1000
To NCI			4800

Consideration a/c	Dr.	7200	
To Equity Share Capital (4000*10)			4000
To Security Premium (4000*8)			3200

Separate set:

Investment a/c	Dr.	7200	
To Equity Share Capital (4000*10)			4000
To Security Premium (4000*8)			3200

Balance sheet abstract of D Ltd. as at 31-03-20X1

		Consolidated (₹ lakh)	Separate (₹ lakh)
PPE	9000+7000	16000	9000
Investment in equity of T			7200
Goodwill		3000	
Financial Assets		1000	
Current Assets	5000+3000	8000	5000
Total assets		28000	21200
Equity Share Capital	6000+4000	10000	10000
Other Equity	3000+3200	6200	6200
Non-controlling Interest		4800	
Borrowings		4000	3000
Current Liabilities		3000	2000
Total of equity and liabilities		28000	21200

Illustration 2:

D Ltd., the parent and T Ltd., its subsidiary were amalgamated to form a new company DT Ltd. on 31-03-X1 who issued requisite number of equity shares of ₹ 10 to take over the businesses of D and T. After amalgamation D retains control over DT. The abstract of balance sheets of the companies on 31-03-X1: ₹ Lakhs

	D	T
PPE	9000	7000
Financial Assets (including investment in equity of T 4000 for 60% holding)	4000	1000
Current Assets	5000	3000
Equity Share Capital	9000	6400
Other Equity	4000	2600

Borrowings	3000	1000
Current Liabilities	2000	1000

Pass journal entries in the books of DT Ltd. and show balance sheet abstract after merger.

Solution:

The combining entities or businesses are ultimately controlled by the same party D both before and after the business combination as before amalgamation D was parent and after amalgamation D retains control over DT. It is a business combination under common control, and pooling of interest method of accounting is to be followed.

Working notes	D	T	DT
PPE	9000	7000	16000
Financial Assets (Investment in T 4000 excluded)		1000	1000
Current Assets	5000	3000	8000
Total Assets	14000	11000	25000
Equity Share Capital	9000	6400	15400
Other Equity	4000	2600	6600
Borrowings	3000	1000	4000
Current Liabilities	2000	1000	3000
Total Liabilities	5000	2000	7000
Net Assets = Total Assets – Total Liabilities	9000	9000	18000
Purchase Consideration = Net Assets less Other Equity	5000	6400	11400
Purchase consideration discharged in the proportion of net assets	5700	5700	11400

Journal in the books of Transferee company DT Ltd.

PPE	Dr.	16000	
Current Assets	Dr.	8000	
Financial Assets	Dr.	1000	
To Consideration			11400
To Borrowings			4000
To Current Liabilities			3000
To Other Equity*			6600

Consideration a/c	Dr.	11400	
To Equity Share Capital			11400

Balance sheet abstract of DT Ltd. as at 31-03-20X1

	₹ lakh
PPE	16000
Financial Assets	1000
Current Assets	8000
Total assets	25000
Equity Share Capital	11400
Other Equity	6600
Borrowings	4000
Current Liabilities	3000
Total of equity and liabilities	25000

Concept of Integrated Reporting

1. Concept:

Integrated reporting (IR) is one of the latest development in a long line of proposed reporting innovations that have sought to improve the usefulness of corporate reporting. International Integrated Reporting Council (IIRC) launched IR as a global framework in December 2013.

Integrated reporting refers to representation of the financial and non-financial performance of a company in a single report. IR provides non-financial data such as how the company performs on environmental, social and governance (ESG) parameters, how sustainability is embedded in the core business strategy etc.

IR aims to provide a more holistic form of reporting the value created by a business, by considering non-financial resources such as human, social and intellectual capitals as well as financial capital. The primary objective of integrated reporting is to help stakeholders analyze and assess the company's ability to create and sustain value in the medium and long term.

This creates a shift in focus from meeting short-term financial goals, to developing a long-term business strategy, which not only makes a commitment to social and environmental issues, but also to sustainable businesses and society.

IR is more than just another corporate report, it is defined as a process, founded on integrated thinking, which results in a periodic integrated report highlighting value creation.

2. Value Creation and Six Capitals

For value creation companies should expand their reporting beyond the stewardship of financial capital, to include all the resources they use as inputs to their business activities. The IIRC uses the term “capitals” to denote these various resources, with six capitals identified: financial; manufactured; intellectual; human; social and relationship; and natural.

- Financial capital: Financial capital is broadly understood as the pool of funds available to an organization. This includes both debt and equity finance. This description of financial capital focuses on the source of funds, rather than its application which results in the acquisition of manufactured or other forms of capital.
- Manufactured capital is seen as human-created, production-oriented equipment and tools. A distinction is drawn between inventory (as a short term asset) and plant and equipment (tangible capital). Although the identification of these items is generally agreed, their accounting treatment, particularly in terms of valuation, depreciation and taxation, is more contentious.
- Intellectual capital is a key element in an organization's future earning potential. It includes investment in R&D, innovation, human resources and external relationships.
- Human Capital • It is “generally understood to consist of the individual's capabilities, and the knowledge, skills and experience of the company's employees and managers, as they are relevant to the task at hand, as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning”. (Dess & Picken, 2000: 8)
- The OECD defines social capital as “networks together with shared norms, values and understandings that facilitate co-operation within or among groups”.
- “Natural capital includes the land, water, atmosphere, and the many natural resources they contain, including ecological systems with living (biotic) and non-living (abiotic) components”.

3. The contents of IR

The contents of IR as per the International IR Framework of the IIRC are summarized below:

An integrated report includes the following eight

Content Elements, answering the question posed below for each:

- A. Organizational overview and external environment
- B. Governance
- C. Business model
- D. Risks and opportunities
- E. Strategy and resource allocation
- F. Performance
- G. Outlook
- H. Basis of preparation and presentation

A. Organizational overview and external environment

An integrated report should answer the question: What does the organization do and what are the circumstances under which it operates?

B. Governance

An integrated report should answer the question: How does the organization's governance structure support its ability to create value in the short, medium and long term?

C. Business model

An integrated report should answer the question: What is the organization's business model?

D. Risks and opportunities

An integrated report should answer the question: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?

E. Strategy and resource allocation

An integrated report should answer the question: Where does the organization want to go and how does it intend to get there?

F. Performance

An integrated report should answer the question: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?

G. Outlook

An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

H. Basis of preparation and presentation

An integrated report should answer the question: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Topic

Module 26:

Export Promotion
Schemes under
Foreign Trade Policy

FINAL

Group IV - Paper-19

Indirect Tax Laws
and Practice (ITLP)

Foreign Trade Policy

The FTP 2023 aims at process re-engineering and automation to facilitate ease of doing business for exporters. It also focuses on emerging areas like dual use high end technology items under SCOMET, facilitating e-commerce export, collaborating with States and Districts for export promotion. The new FTP is introducing a one-time Amnesty Scheme for exporters to close the old pending authorizations and start afresh.

The FTP 2023 encourages recognition of new towns through “Towns of Export Excellence Scheme” and exporters through “Status Holder Scheme”. The FTP 2023 is facilitating exports by streamlining the popular Advance Authorization and EPCG schemes, and enabling merchanting trade from India.

Process Re-Engineering and Automation

Greater faith is being reposed on exporters through automated IT systems with risk management system for various approvals in the new FTP. The policy emphasizes export promotion and development, moving away from an incentive regime to a regime which is facilitating, based on technology interface and principles of collaboration. Considering the effectiveness of some of the ongoing schemes like Advance Authorisation, EPCG etc. under FTP 2015-20, they will be continued along with substantial process re-engineering and technology enablement for facilitating the exporters. FTP 2023 codifies implementation mechanisms in a paperless, online environment, building on earlier ‘ease of doing business’ initiatives. Reduction in fee structures and IT-based schemes will make it easier for MSMEs and others to access export benefits.

Duty exemption schemes for export production will be implemented through Regional Offices in a rule-based IT system environment, eliminating the need for manual interface. During the FY23-24, all processes under the Advance and EPCG Schemes, including issue, re-validation, and EO extension, will be covered in a phased manner. Cases identified under risk management framework will be scrutinized manually, while majority of the applicants are expected to be covered under the ‘automatic’ route initially.

Towns of Export Excellence

Four new towns, namely Faridabad, Mirzapur,

Moradabad, and Varanasi, have been designated as Towns of Export Excellence (TEE) in addition to the existing 39 towns. The TEEs will have priority access to export promotion funds under the MAI scheme and will be able to avail Common Service Provider (CSP) benefits for export fulfillment under the EPCG Scheme. This addition is expected to boost the exports of handlooms, handicrafts, and carpets.

Recognition of Exporters

Exporter firms recognized with ‘status’ based on export performance will now be partners in capacity-building initiatives on a best-endeavor basis. Similar to the ‘each one teach one’ initiative, 2-star and above status holders would be encouraged to provide trade-related training based on a model curriculum to interested individuals. This will help India build a skilled manpower pool capable of servicing a \$5 Trillion economy before 2030. Status recognition norms have been re-calibrated to enable more exporting firms to achieve 4 and 5-star ratings, leading to better branding opportunities in export markets.

Promoting export from the districts

The FTP aims at building partnerships with State governments and taking forward the Districts as Export Hubs (DEH) initiative to promote exports at the district level and accelerate the development of grassroots trade ecosystem. Efforts to identify export worthy products & services and resolve concerns at the district level will be madethrough an institutional mechanism – State Export Promotion Committee and District Export Promotion Committee at the State and District level, respectively. District specific export action plans to be prepared for each district outlining the district specific strategy to promote export of identified products and services.

Streamlining SCOMET Policy

India is placing more emphasis on the “export control” regime as its integration with export control regime countries strengthens. There is a wider outreach and understanding of SCOMET (Special Chemicals, Organisms, Materials, Equipment and Technologies) among stakeholders, and the policy regime is being made more robust to implement international treaties and agreements entered into by India. A robust export control system in India would provide access of

dual-use High end goods and technologies to Indian exporters while facilitating exports of controlled items/ technologies under SCOMET from India.

Facilitating E-Commerce Exports

E-commerce exports are a promising category that requires distinct policy interventions from traditional offline trade. Various estimates suggest e-commerce export potential in the range of \$200 to \$300 billion by 2030. FTP 2023 outlines the intent and roadmap for establishing e-commerce hubs and related elements such as payment reconciliation, book-keeping, returns policy, and export entitlements. As a starting point, the consignment wise cap on E-Commerce exports through courier has been raised from ₹ 5 Lakh to ₹ 10 Lakh in the FTP 2023. Depending on the feedback of exporters, this cap will be further revised or eventually removed. Integration of Courier and Postal exports with ICEGATE will enable exporters to claim benefits under FTP. The comprehensive e-commerce policy addressing the export/import ecosystem would be elaborated soon, based on the recommendations of the working committee on e-commerce exports and inter-ministerial deliberations. Extensive outreach and training activities will be taken up to build capacity of artisans, weavers, garment manufacturers, gems and jewellery designers to onboard them on E-Commerce platforms and facilitate higher exports.

Facilitation under Export Promotion of Capital Goods (EPCG) Scheme

The EPCG Scheme, which allows import of capital goods at zero Customs duty for export production, is being further rationalized. Some key changes being added are:

- Prime Minister Mega Integrated Textile Region and Apparel Parks (PM MITRA) scheme has been added as an additional scheme eligible to claim benefits under CSP(Common Service Provider) Scheme of Export Promotion capital Goods Scheme(EPCG).
- Dairy sector to be exempted from maintaining Average Export Obligation – to support dairy sector to upgrade the technology.
- Battery Electric Vehicles (BEV) of all types, Vertical Farming equipment, Wastewater Treatment and Recycling, Rainwater harvesting system and Rainwater Filters, and Green Hydrogen are added

to Green Technology products – will now be eligible for reduced Export Obligation requirement under EPCG Scheme

Facilitation under Advance authorization Scheme

Advance authorisation Scheme accessed by DTA units provides duty-free import of raw materials for manufacturing export items and is placed at a similar footing to EOU and SEZ Scheme. However, the DTA unit has the flexibility to work both for domestic as well as export production. Based on interactions with industry and Export Promotion councils, certain facilitation provisions have been added in the present FTP such as

- Special Advance Authorisation Scheme extended to export of Apparel and Clothing sector under para 4.07 of HBP on self-declaration basis to facilitate prompt execution of export orders – Norms would be fixed within fixed timeframe.
- Benefits of Self-Ratification Scheme for fixation of Input-Output Norms extended to 2 star and above status holders in addition to Authorised Economic Operators at present.

Merchanting trade

To develop India into a merchanting trade hub, the FTP 2023 has introduced provisions for merchanting trade. Merchanting trade of restricted and prohibited items under export policy would now be possible. Merchanting trade involves shipment of goods from one foreign country to another foreign country without touching Indian ports, involving an Indian intermediary. This will be subject to compliance with RBI guidelines, and won't be applicable for goods/items classified in the CITES and SCOMET list. In course of time, this will allow Indian entrepreneurs to convert certain places like GIFT city etc. into major merchanting hubs as seen in places like Dubai, Singapore and Hong Kong.

Conclusion

India's Foreign Trade Policy serves as a roadmap for sustainable economic growth, job creation, and global competitiveness. By fostering collaboration, simplifying procedures, and embracing emerging trends, the FTP aims to position India as a major player in international trade.

Topic

Module 1:

Introduction to
Performance
Management

Module 7:

Business Valuation
Methods and
Approaches

ELECTIVES

Paper-20A

Strategic
Performance
Management and
Business
Valuation (SPMBV)

Module 1 : Introduction to Performance Management

Case Study: Leveraging Strategy Maps for Organizational Success

In today's competitive business landscape, organizations increasingly turn to strategic tools like strategy maps to align activities with long-term objectives and enhance performance. A strategy map visually represents a company's strategy, linking strategic objectives, measures, targets, and initiatives in a cause-and-effect structure.

Company Background

ChatGPT

Certainly! Let's expand on the company background for ABC Corporation:

Company Background

ABC Corporation, a globally recognized leader in the technology sector, has carved out a formidable niche in the market through its commitment to innovation and customer-centric solutions. Founded over three decades ago by visionary entrepreneurs, the company initially focused on software development for niche industrial applications. Over the years, ABC Corporation diversified its portfolio, expanding into hardware manufacturing, consumer electronics, and digital services.

Driven by a culture of innovation and a relentless pursuit of excellence, ABC Corporation has consistently pushed the boundaries of technology. Its breakthroughs in artificial intelligence, cloud computing, and digital transformation have not only revolutionized industries but also set new benchmarks for technological advancement globally.

Despite its success, ABC Corporation faced challenges in recent years. Rapid technological advancements and shifting consumer preferences demanded agility and strategic foresight. The need to streamline operations across its diverse business units became apparent as market dynamics evolved. This led the CEO and senior management to embark on a strategic transformation journey aimed at ensuring sustainable growth and competitive advantage in an increasingly digitalized marketplace.

Recognizing the importance of strategic alignment and operational efficiency, ABC Corporation embraced strategy maps as a pivotal tool to navigate complexities and drive organizational performance. By aligning strategic objectives with actionable initiatives across departments, ABC aimed to foster a unified approach towards achieving its long-term vision of becoming a leader in technology innovation and digital solutions.

The introduction of strategy maps represented a strategic shift towards a more structured and integrated approach to strategic planning and execution. It enabled ABC Corporation to articulate its core strategic themes—Product Innovation, Customer Experience, Operational Efficiency, and Market Expansion—clearly and cohesively. Each of these themes was identified not only as critical to sustaining growth but also as fundamental pillars in fortifying its market position and enhancing stakeholder value.

As ABC Corporation continues to evolve in a dynamic and competitive landscape, its commitment to innovation, operational excellence, and customer satisfaction remains unwavering. The strategic integration of strategy maps has proven instrumental in guiding decision-making, fostering collaboration, and driving performance across all levels of the organization. With a steadfast focus on leveraging technology to address emerging challenges and opportunities, ABC Corporation is poised to shape the future of industries and deliver transformative solutions that meet the evolving needs of its global clientele.

Developing the Strategy Map

ABC Corporation assembled a strategy development team comprising executives from various departments. Together, they identified four strategic themes critical to their goals: Product Innovation, Customer Experience, Operational Efficiency, and Market Expansion.

Product Innovation: ABC aimed to maintain innovation leadership by accelerating product development cycles and increasing R&D investments.

Customer Experience: The company prioritized enhancing service quality, personalizing customer interactions, and improving post-purchase support.

Operational Efficiency: ABC focused on reducing costs, optimizing the supply chain, and implementing lean principles in manufacturing.

Market Expansion: To grow globally, ABC planned to enter new markets and strengthen distributor partnerships.

Implementing the Strategy Map

ABC cascaded the strategy map throughout the organization, ensuring alignment at every level. Each department translated high-level objectives into specific measures and targets relevant to their functions.

Adopting strategy maps provided several benefits:

- a. **Clarity and Focus:** Employees understood how their activities contributed to company goals, fostering alignment and purpose.

- b. **Improved Decision-Making:** Managers prioritized initiatives and allocated resources based on strategic impact.
- c. **Performance Accountability:** Clear cause-and-effect relationships allowed managers to monitor performance and take corrective actions.
- d. **Enhanced Communication:** Visual strategy maps facilitated cross-department communication, promoting collaboration.

Following the implementation of strategy maps, ABC Corporation experienced notable improvements across its strategic themes:

- i. **Product Innovation:** By focusing on reducing product development cycles and increasing R&D investments, ABC introduced several innovative products ahead of competitors. This strategy not only strengthened its market position but also enhanced its reputation as an industry leader in innovation.
- ii. **Customer Experience:** Through efforts to enhance service quality and personalize customer interactions, ABC Corporation saw an increase in customer satisfaction metrics. Improved post-purchase support further solidified customer loyalty and retention rates.
- iii. **Operational Efficiency:** ABC's initiatives in optimizing the supply chain and implementing lean principles resulted in significant cost savings. Streamlined operations improved productivity and responsiveness, enabling the company to meet market demands efficiently.
- iv. **Market Expansion:** Leveraging the strategy map, ABC successfully entered new international markets and forged stronger partnerships with distributors. This expansion diversified its revenue streams and reduced dependency on specific geographic markets.

Sustaining Success

To sustain its success, ABC Corporation continues to use strategy maps as a dynamic tool for strategic alignment and performance management. Regular reviews and updates ensure that the strategy remains responsive to market changes and competitive pressures.

Future Directions

Looking ahead, ABC plans to further innovate in product development, enhance digital customer engagement strategies, streamline operations through advanced technologies like AI and IoT, and explore new growth opportunities in emerging markets. Strategy maps have proven instrumental in ABC Corporation's strategy

execution journey. By providing clarity, alignment, and a structured approach to achieving its goals, ABC has not only overcome challenges but also positioned itself for sustained growth and competitiveness in the technology sector.

Multiple Choice Questions:

1. What is the primary purpose of a strategy map in organizations?
 - A) To outline daily operational tasks
 - B) To communicate strategic objectives
 - C) To manage financial transactions
 - D) To conduct market research

Answer: B) To communicate strategic objectives
2. Which of the following is a key benefit of using strategy maps?
 - A) Increasing product variety
 - B) Reducing employee turnover
 - C) Improving decision-making
 - D) Enhancing office infrastructure

Answer: C) Improving decision-making
3. How does a strategy map help with performance accountability?
 - A) By automating tasks
 - B) By tracking employee attendance
 - C) By monitoring performance against targets
 - D) By organizing team-building activities

Answer: C) By monitoring performance against targets
4. What role does a strategy map play in enhancing communication within an organization?
 - A) It schedules meetings efficiently
 - B) It improves email etiquette
 - C) It breaks down departmental silos
 - D) It manages payroll systems

Answer: C) It breaks down departmental silos
5. What is the purpose of cascading a strategy map throughout an organization?
 - A) To increase office productivity
 - B) To align efforts with strategic goals
 - C) To reduce customer complaints
 - D) To negotiate better contracts

Answer: B) To align efforts with strategic goals

Module 7 : Business Valuation Methods and Approaches

Case Study: Discounting Factor for Business Valuation

In the realm of corporate finance, business valuation serves as a critical exercise for stakeholders ranging from investors and analysts to company management and potential buyers. Central to this valuation process is the concept of discounting factors, which play a pivotal role in determining the present value of future cash flows and assessing the overall worth of a business entity. This case study delves into the intricacies of discounting factors, their application in business valuation, and their impact on strategic decision-making.

Business valuation is the process of determining the economic value of a business or company. It is a multidimensional assessment that takes into account various factors such as financial performance, market conditions, industry trends, and strategic positioning. Valuation exercises are conducted for a myriad of reasons, including mergers and acquisitions, financial reporting, tax planning, litigation, and shareholder transactions.

Understanding Discounting Factor

At the core of business valuation lies the concept of discounting future cash flows to their present value. This is based on the principle that a dollar received today is worth more than a dollar received in the future due to the time value of money. The discounting factor, often represented as the discount rate or discounting rate, reflects the rate of return required by an investor to compensate for the time value of money and the risks associated with an investment.

Types of Discounting Factors

Discounting factors can vary based on the nature of the cash flows being discounted and the specific context of the valuation exercise:

Cost of Capital (WACC): The Weighted Average Cost of Capital represents the blended cost of financing a company's operations, taking into account the cost of debt and equity capital. WACC serves as a discount rate for discounting cash flows that represent the entire business.

Risk-Adjusted Discount Rate: In cases where specific risks associated with the investment differ from the company's overall risk profile, a risk-adjusted discount rate may be applied. This rate reflects the additional risk premium required to compensate for specific uncertainties.

Opportunity Cost: Some valuation scenarios use opportunity cost as the discount rate, reflecting the return that could be earned from alternative investments with similar risk profiles.

Application of Discounting Factors in Valuation

Discounting factors are applied in various business valuation methods, including:

- i. **Discounted Cash Flow (DCF) Method:** This method estimates the present value of a company based on its projected future cash flows. The discount rate used in DCF reflects the company's cost of capital or required rate of return.
- ii. **Market Approach:** In valuation methods that compare the target company to similar publicly traded companies or recent transactions (comparable company analysis or precedent transactions), discounting factors are implicit in the pricing multiples applied.
- iii. **Income Approach:** Methods such as the Capitalization of Earnings and Discounted Future Earnings apply discounting factors to estimate the value of a business based on its future earnings potential.

Factors Influencing Discounting Factors

Several factors influence the determination of discounting factors in business valuation:

- a. **Risk Profile:** Higher-risk investments typically command higher discount rates to compensate investors for the increased uncertainty.
- b. **Market Conditions:** Economic conditions, interest rates, and industry-specific factors impact the cost of capital and hence the discount rate.
- c. **Company-Specific Factors:** The financial health, growth prospects, management quality, and competitive position of the company influence the perceived risk and hence the discount rate applied.

Case Study Scenario: Application of Discounting Factor

XYZ Corporation, a leading manufacturer of renewable energy solutions, is considering the acquisition of a smaller competitor, ABC Renewable Technologies, to expand its market reach. The CFO of XYZ Corporation has been tasked with conducting a business valuation of ABC Renewable Technologies using the discounted cash flow (DCF) method. The CFO gathers the following information:

ABC Renewable Technologies is expected to generate annual cash flows of \$5 million, \$7 million, and \$9 million over the next three years.

The cost of capital (WACC) for XYZ Corporation is estimated at 10%.

ABC Renewable Technologies is perceived to have similar risk characteristics as XYZ Corporation.

Calculation of Present Value (PV) Using Discounting Factor

Using the DCF method, the CFO calculates the present value (PV) of ABC Renewable Technologies' future cash flows:

$$PV \text{ Year 1} = \$5,000,000 / (1 + 0.10)^1 = \$4,545,454.55$$

$$PV \text{ Year 2} = \$7,000,000 / (1 + 0.10)^2 = \$5,578,512.40$$

$$PV \text{ Year 3} = \$9,000,000 / (1 + 0.10)^3 = \$6,418,211.80$$

$$\text{Total Present Value (PV)} = \$4,545,454.55 + \$5,578,512.40 + \$6,418,211.80 = \$16,542,178.75$$

Based on this calculation, the estimated present value of ABC Renewable Technologies, using XYZ Corporation's discounting factor (WACC), is approximately \$16.54 million.

Business Decision and Strategic Implications

Armed with the valuation analysis, XYZ Corporation's management can now make informed decisions regarding the potential acquisition of ABC Renewable Technologies. The calculated present value provides a benchmark against which the acquisition price can be evaluated, taking into consideration strategic synergies, market conditions, and future growth prospects.

Discounting factors are fundamental to business valuation, offering a systematic approach to assess the worth of a company based on its future cash flows and risk profile. By understanding and applying appropriate discounting factors, organizations can make informed strategic decisions, optimize capital allocation, and maximize shareholder value in dynamic and competitive markets.

Multiple Choice Questions:

1. What is the primary purpose of a discounting factor in business valuation?

- A) To calculate historical financial performance
- B) To forecast future market trends
- C) To adjust for the time value of money
- D) To analyze competitor strategies

Answer: C) To adjust for the time value of money

2. Which discounting factor represents the blended cost of financing a company's operations?

- A) Opportunity Cost
- B) Risk-Adjusted Discount Rate
- C) Weighted Average Cost of Capital (WACC)
- D) Internal Rate of Return (IRR)

Answer: C) Weighted Average Cost of Capital (WACC)

3. In business valuation, which method typically uses discounting factors to estimate the present value of future cash flows?

- A) Comparable Company Analysis
- B) Precedent Transactions
- C) Discounted Cash Flow (DCF)
- D) Market Multiples Approach

Answer: C) Discounted Cash Flow (DCF)

4. What influences the determination of discounting factors in business valuation?

- A) Regulatory compliance
- B) Market liquidity
- C) Industry benchmarks
- D) Risk profile and market conditions

Answer: D) Risk profile and market conditions

5. What strategic advantage does understanding discounting factors provide to organizations?

- A) Increased operational efficiency
- B) Enhanced employee engagement
- C) Informed decision-making
- D) Improved customer service

Answer: C) Informed decision-making

Topic

Module 3:

Credit Risk and
Liquidity Risk

Module 8:

Managing Risk in
Insurance Business

ELECTIVES

Paper-20B

Risk Management
In Banking and
Insurance (RMBI)

How to Mitigate “Credit Risk”

Credit risk constitutes a significant concern for financial institutions, with the effectiveness of credit risk management being crucial in minimizing losses, safeguarding customer trust, and adhering to pertinent regulations. This discourse will expound on the primary strategies that risk experts can deploy to efficiently handle credit risks within banking institutions.

Formulate a Comprehensive Credit Risk Management Policy: The formulation of a thorough credit risk management policy is imperative to direct risk management endeavours across the entire organization. This policy should delineate the duties and accountabilities of stakeholders, the methodologies for identifying and evaluating credit risks, and the risk management approaches to be enacted.

Execute Regular Credit Risk Assessments: Routine credit risk assessments need to be executed to pinpoint potential credit risks and devise suitable risk management tactics. This encompasses recognizing plausible credit risk scenarios, evaluating the probability and repercussions of each scenario, and formulating risk management strategies to counteract the risk effectively.

Enforce Robust Credit Risk Mitigation Mechanisms: It is essential to enforce robust credit risk mitigation mechanisms to alleviate potential credit risks. This involves the implementation of efficient credit scoring models, the establishment of sound underwriting practices, and the consistent monitoring of borrower creditworthiness.

Provide Ongoing Employee Training: The provision of continuous employee training is pivotal in ensuring that staff comprehends the significance of credit risk management and how to execute it proficiently. This encompasses training on credit risk management policies, credit scoring models, underwriting practices, and response protocols.

Develop a Comprehensive Credit Risk Response Plan: A comprehensive credit risk response plan should be devised to guarantee that the organization can promptly and effectively react to any credit risk incidents that transpire. This includes establishing unambiguous protocols for identifying and containing credit risk incidents, notifying affected parties, and conducting a post-incident evaluation.

Execute Regular Credit Risk Reviews: Regular credit risk evaluations should be conducted to verify that the credit risk management scheme remains effective and current. This involves appraising the efficacy of credit risk mitigation mechanisms, identifying potential deficiencies in the credit risk management scheme, and

implementing pertinent risk management tactics.

Ensure Adherence to Regulations and Standards: Adherence to pertinent regulations and standards, such as the Banking Code of Practice or the Australian Prudential Regulation Authority (APRA) directives, is indispensable for competent credit risk management in the banking sector.

In conclusion, proficient management of credit risks is paramount for financial institutions to curtail losses, safeguard customer trust, and ensure conformity with relevant regulations. Through the formulation of a comprehensive credit risk management policy, the execution of regular credit risk assessments, the enforcement of robust credit risk mitigation mechanisms, the provision of ongoing employee training, the development of a comprehensive credit risk response plan, the execution of regular credit risk reviews, and the assurance of compliance with regulations and standards, risk experts can aid their organizations in effectively managing credit risks and upholding the confidence of their clientele. By giving precedence to credit risk management, banks can set themselves apart in the market and manifest their dedication to upholding customer confidentiality and safety.

Multiple Choice Questions:

- Which of the following is Not a type of risk in Banking Sector?
 - Credit Risk
 - Operational Risk
 - Market Risk
 - Liquidity Risk
 - Account Risk.**
- The risk that arises from the possibility of non-payment of loans by the borrowers is known as-
 - Credit Risks**
 - Market Risks
 - Moral Hazard
 - Business Risk
 - Liquidity Risk
- What is ‘Liquidity Risk’ in banking?
 - The risk that a bank will not have sufficient cash to meet its obligations**
 - The risk that a bank will make a loss
 - The risk that a bank’s assets will depreciate
 - The risk that a bank will earn less profit
 - None of the above.

4. What does 'Credit Risk' refer to in banking?
 - a) The risk of a decline in the value of a bank's assets
 - b) **The risk of default by a borrower**
 - c) The risk of fluctuations in interest rates
 - d) The risk of operational failures
 - e) None of the above.
5. What is the purpose of a company's financial statements?
 - a) To provide information about the company's performance
 - b) To satisfy legal requirements
 - c) To make managerial decisions
 - d) **All of the above**
 - e) None of the above.

Implications of Pre-existing Conditions Clause / Policy Reinstatement Clause In Health Insurance Policy

Health Insurance contracts have many inbuilt conditions, warranties and clauses. The implication of the Pre-existing clause is to prevent adverse selection. There may be some physical or mental conditions of the insured, which may have existed prior to the date on which the policy takes effect. Pre-existing conditions will be covered after a waiting period, which differs from insurer to insurer.

According to the policy terms, only those diseases that are prevalent and have been diagnosed before buying the insurance are considered Pre-Existing Diseases (PED).

Therefore, if we have an illness that you were unaware of or was not diagnosed before the insurance came into effect, it would not be considered under PED.

This condition helps the policyholders in such a way that they won't have to wait for a couple of years to claim their insurance for pre-existing diseases. The PED insurance would cover the costly treatments of such diseases.

Some of the most common pre-existing conditions include thyroid, high blood pressure, diabetes, asthma,

cholesterol, etc. Most health insurance companies have a waiting period that can last from a couple of months to a few years before you start covering pre-existing illnesses.

Under the Policy reinstatement clause when the premium is not paid even within the grace period, the policy lapses. However, the policy may be reinstated if the premium is received at least within 45 days. Sometimes a fresh application is required. There is a waiting period for sickness, not accidents, for the reinstated.

Several companies offer this reinstatement facility whereby the limit of the person insured is reinstated before the end of the term of the policy. This has its benefits as the person who is insured has the peace of mind that even though, they have used the health policy due to a claim, there is still adequate protection that is present for them which can still be used.

It becomes useful when a claim is made and can be especially beneficial when there is a situation of multiple claims, especially on a floater policy.

Role of Insurance in Risk Management

'Risk, in insurance terms, is the possibility of a loss or other adverse event that has the potential to interfere with an organization's ability to fulfil its mandate, and for which an insurance claim may be submitted'. Risk management ensures that an organization identifies and understands the risks to which it is exposed. Risk management also guarantees that the organization creates and implements an effective plan to prevent losses or reduce the impact if a loss occurs. A risk management plan includes strategies and techniques for recognizing and confronting these threats. Good risk management doesn't have to be expensive or time consuming; it may be as uncomplicated as answering these the questions.

Key aspects of the role of insurance in risk management:

1. **Financial Protection:** Insurance serves as a financial safety net by compensating policyholders for covered losses or damages. This protection helps individuals and businesses avoid financial ruin in the face of unforeseen events such as accidents, natural disasters, or other perils.
2. **Risk Transfer:** Insurance involves the transfer of risk from the insured (policyholder) to the insurer. Policyholders pay premiums to the insurer in exchange for the promise of compensation in the event of a covered loss. This risk transfer mechanism helps individuals and businesses manage their exposure to various risks.
3. **Indemnification:** The principle of indemnity is central to insurance. It ensures that policyholders are restored to the same financial position they were in before the occurrence of a covered loss. Insurers provide compensation to help policyholders recover from financial setbacks caused by unforeseen events.
4. **Promotion of Economic Stability:** Insurance contributes to economic stability by absorbing and spreading risks across a large pool of policyholders. This risk-sharing mechanism prevents the concentrated impact of losses on individuals or businesses, reducing the overall economic volatility associated with unexpected events.
5. **Encouragement of Risk Reduction Measures:** Insurance companies often encourage and reward policyholders for implementing risk reduction measures. By promoting safety practices, security measures, and other preventive actions, insurers aim to reduce the frequency and severity of claims, benefiting both the insured and the insurer.
6. **Facilitation of Long-Term Planning:** Insurance provides a foundation for long-term financial planning by offering certainty and predictability. Individuals and businesses can plan for the future with greater confidence, knowing that they have protection against potential risks.
7. **Support for Credit and Investment:** Insurance coverage can enhance creditworthiness for individuals and businesses. Lenders often require insurance as a condition for loans or investments to protect their interests. This requirement helps ensure that borrowers can meet their financial obligations even in the face of unexpected events.
8. **Social and Community Resilience:** Insurance contributes to social and community resilience by assisting individuals and businesses in recovering from disasters or emergencies. This, in turn, helps communities rebuild and recover more rapidly, reducing the overall societal impact of such events.

Topic

Module 6:

Risk Management
Strategies

ELECTIVES

Paper-20C

Entrepreneurship
and Start Up (ENTS)

Paper 20C : Entrepreneurship and Startup

Risk Management Strategies and Types of New Age Business

Risk Management Strategies

Risk management is the process of identifying, assessing and controlling financial, legal, strategic and security risks to an organization's capital and earnings.

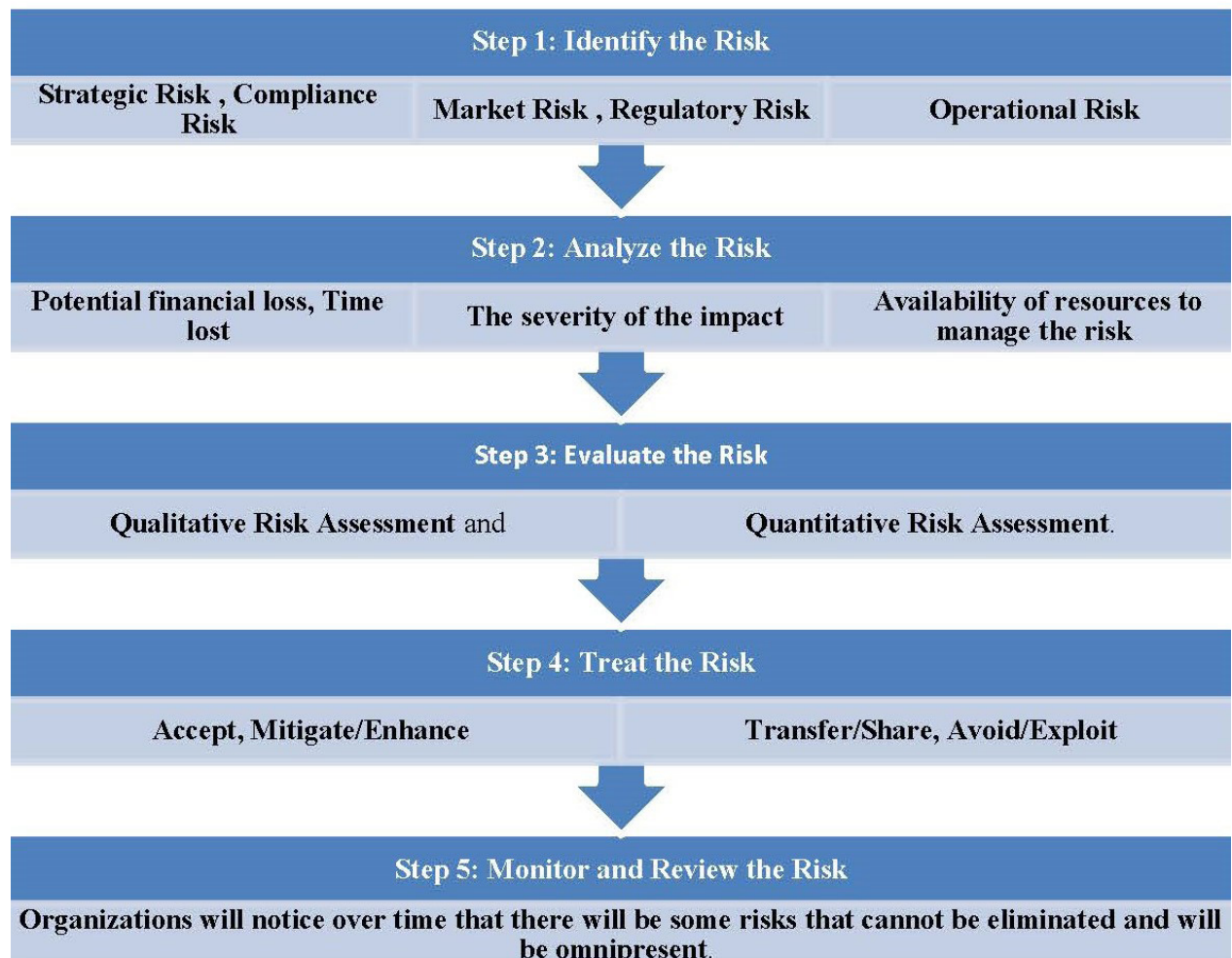
In startup companies face many types of risks. Some of these risks will be more important than others and will need to be prioritized. This process of prioritizing risks is known as risk management. There are a number of factors that need to consider when prioritizing risks.

One common strategy is using by the startups to purchase insurance. Insurance can protect business from a variety of risks, including property damage, liability, and even business interruption. Another risk mitigation strategy is to create contingency plans. Contingency plans can help the business running in the event of an unexpected setback, such as a natural disaster or a major customer loss.

The process of risk management is shown below:



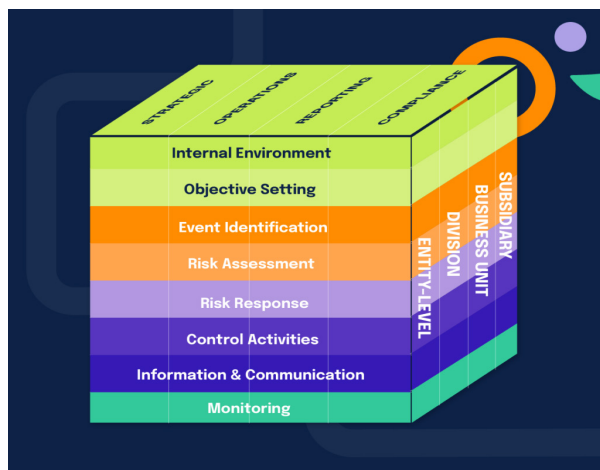
Source: <https://www.invensislearning.com/blog/risk-management-process-steps/>



Enterprise Risk Management (ERM)

Enterprise risk management (ERM) is the process of planning, organizing, directing and controlling the activities of an organization to minimize the harmful effects of risk on its capital and earnings.

COSO framework for enterprise risk management



These are as follows:

- 1. Internal Environment:** The internal environment of an enterprise is essential to enterprise risk management. How risk is perceived and remediated must be established by management, as well as the risks they face and the organization's overall risk appetite.
- 2. Objective Setting:** Enterprises must set objectives before they can measure risks and these must also align with the organization's risk appetite, as well as their mission.
- 3. Event Identification:** Any events — both internal and external — that may impact the enterprise have to be identified.
- 4. Risk Assessment:** Once risks have been identified, they can be assessed and aligned with the business' objectives. This allows the organization to track them.
- 5. Risk Response:** Responding to risks can take many forms in enterprise risk management. Typically, it will occur in four ways: avoiding the risk, accepting the risk, reducing the risk, or sharing the risk. Decisions are made based on the risk tolerance and risk appetite of the enterprise.
- 6. Control Activities:** Once risk response has been determined, it is time to execute and monitor the risks and their related activities.

7. Information and Communication: To remediate risk, employees need to understand what is being asked of them. Determining what is relevant to which stakeholders across the enterprise is a difficult task, but it must be done in order to identify, assess, and respond to risks.

8. Monitoring: For enterprise risk management to be successful, it must be monitored at all levels. This allows for the organization to be able to respond dynamically at any time to changes in its environment and risks.

Types of New Age Business

New-age companies generally have an innovative business model belonging to the knowledge-based, technology sector. Their business model is completely different from that of traditional firms which are asset-heavy in nature.

Types of New Age Business

Fin-Tech	Ed-Tech
Agri-Tech	Healthcare Tech
Defence	Food Tech

FinTech: FinTech, a mix of “financial” and “technology”. Word ‘Fintech’ is applied to elaborate financial technology, a branch which describes any sort of technology in financial services - specially B2C (business to customer). Over 2,174 fintech startups have been established in India for different segments.



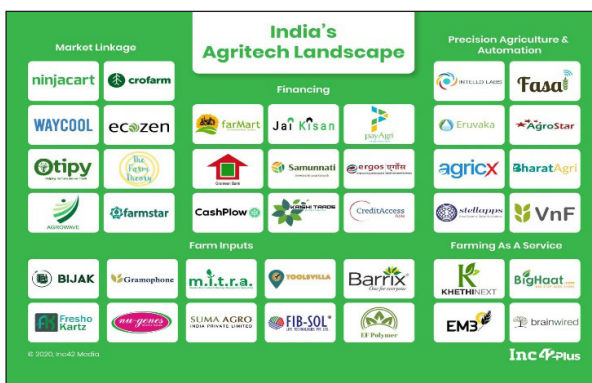
Ed Tech: Educational Technology (EdTech) refers to the use of digital tools and resources to enhance teaching and learning. This includes software, apps, online courses, and interactive platforms that help educators teach more effectively and students learn more efficiently.



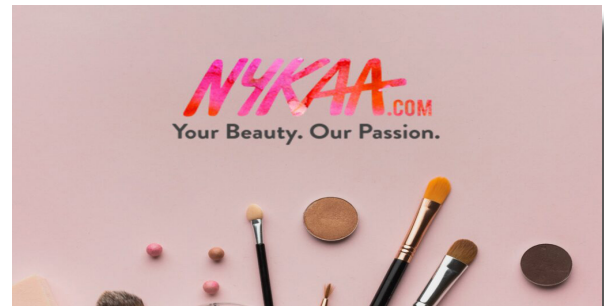
Healthcare Tech: Healthcare technology is any technology, including medical devices, IT systems, algorithms, artificial intelligence (AI), cloud and blockchain, designed to support healthcare organizations.



Agri-Tech: Agri-tech brings new changes and innovation to existing agricultural practices with the help of digitalisation and modern techniques. National Agricultural Market (e-AM) scheme offers free software as well as financial support of INR75 lakh each to the Agriculture Produce Market Committee (APMC) mandi for associated hardware, such as quality-assuring tools and the establishment of infrastructure for cleaning, grading, sorting, packing, composting, etc.



Case Study : Nykaa



Nykaa is an Indian eCommerce company that sells wellness, beauty, and fashion products. Also, it sells products made in India and overseas. In 2020, Nykaa was priced at ₹85 billion, which made it the first-ever unicorn startup led by an Indian woman.

Nykaa's Mission

Nykaa's mission stands on three essential ideals. These are information, curation, and personalization. The brand believes in offering the best, which will help them make the right choice for their holistic beauty requirements.

The mission statement of Nykaa is: "Inspiring Indians, both men, and women, to make lifestyle and fashion choices that best suit them."

Founder of Nykaa

Falguni Nayar, previously working as a Managing Director at Kotak Mahindra Capital Company, founded Nykaa in 2012. It began as an eCommerce portal that sells a wide range of beauty and wellness products. Nayar is the Founding Member of the Asia Society in India. She is a source of inspiration to all as a successful entrepreneur and a responsible homemaker.

Journey of Nykaa

When Nykaa made its debut, the beauty industry in India was shattered.

Then, brick-and-mortar shops had a few collections, and men's beauty products did not have as many varieties as we have today. This company offered a unique combination of affordable products and brands, luxury brands, and less harmful effects, all under one roof.

Nykaa has a vast collection of informative blogs, forums, and articles for readers to read and share their knowledge.

Nykaa's Business Model

Nykaa is one of the few companies which follow an inventory-based eCommerce model. The company stores the collection of goods bought directly from the buyers. They keep their products in their warehouse.

The brand has warehouses in Mumbai, New Delhi, and Bengaluru.

They sell products directly from there. In this mode of business, the profit margin is too high.

The company is solely responsible for any damage. They attained their breakeven after five years since they started their operations.

Initially, the cost to attain a customer was ₹1,000/, which has now decreased from ₹200 to ₹300. Nykaa has built its offline presence in nearly 35 stores.

Nykaa has two store formats known as Nykaa On-Trend and Nykaa Luxe.

The Luxe format includes luxury beauty brands.

On the other hand, the On-Trend format features designed products based on the category depending on their popularity.

The target audience of Nykaa is the 22-35 age group.

Nykaa also has a series of in-house brands in fashion and beauty. Some of them are:

Nykaa House of Brands- Nykaa Cosmetics, Kay Beauty, Nykaa Naturals

Nykaa Fashion- 20 Dresses, Nykd by Nykaa, Likha, RSVP, Pipa Bella, Mondno

In 2015, Nykaa launched its collection of in-house beauty products under Nykaa cosmetics, extending it across other categories like eyes, lips, nails, and face.

Nykaa Naturals is a collection of skincare and personal care products. In 2019, the brand launched its Wanderlust Bath & Body collection.

Nykaa's Digital Marketing Strategies

Delivering something new to consumers is an essential component of the marketing approach of Nykaa. Their strategies are as follows:

- (i) Offering the correct value: Nykaas's significant marketing strategy is to provide value in all possible ways. the brand's whole marketing strategy ensures that clients are delighted even before the customers try their product.
- (ii) Posting deals: Nykaa understands that their audience loves pampering. Therefore, they don't leave any chance to develop new consumer offers and discounts.
- (iii) Growth: Nykaa started as an online store where one could buy cosmetics. After a few years, they launched their collection of beauty and skincare products under their name.
- (iv) Innovation- Nykaa always tries to bring innovation to its strategies. From launching new products to their line to working with influences and posting content, they always remain on top of the trends and implement unique plans for their brand.

Nykaa- Investors and Funding

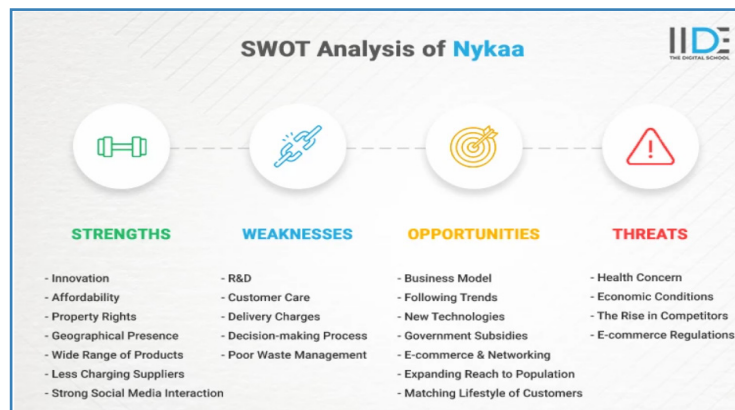
Nykaa's valuation surpassed the \$13 billion mark in its debut on Indian stock exchanges. As a result, the stocks started trading at a premium of around 82% and increased to nearly 96%.The funding journey of Nykaa began with money invested by Falguni Nayar and her husband, Sanjay Nayar, who is currently the CEO of KKR.

Although both the founders of Nykaa had a massive connection in investment banking, they did not contact any institutional investors till the brand witnessed high growth.

<https://streamlynacademy.com/blog/nykaa-case-study/#nykaa-case-study-about-nykaa-company>

SWOT Analysis of Nykaa

To better understand the SWOT analysis of Nykaa, refer to the infographic below:



Source: <https://iide.co/case-studies/swot-analysis-of-nykaa/>

MCQs:

1. Which of the following is a new age business model in India?
- (a) Manufacturer business model
 - (b) Distributor business model
 - (c) Franchise business model
 - (d) Digital Marketing model

Answer (d)

2. Which of the following is not a characteristics of new age business?
- (a) It is an innovative business model
 - (b) It is based on heavy asset
 - (c) It belongs to knowledge based
 - (d) It depends on technology

Answer (b)

3. Which of the following statements are true of Nykaa's business model?

The company stores the collection of goods bought directly from the buyers

- A. The company follows inventory-based eCommerce model.

- B. The company stores the collection of goods bought directly from the buyers.

- C. The company is responsible for any damage.

Choose the correct answer from the options given below:

- (a) A, B, C only
- (b) B and C only
- (c) A and B only
- (d) A and C only

Answer (a)

4. What is digital marketing?

- (a) Traditional marketing techniques
- (b) Marketing using digital channels and technologies
- (c) Marketing only on social media platforms
- (d) Marketing only through mobile devices

Answer: (b)

5. Which one of the following is the strength of Nykka?

- (a) Customer care
- (b) Delivery charges
- (c) Strong social media interaction
- (d) Decision-making process

Answer: (c)

NOTES

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Invitation to Contribute Articles for CMA Student E-Bulletin - Showcasing Your Expertise!

Dear CMA Student,

We are excited to extend an invitation to you to contribute an article for the **CMA Student E-Bulletin**, our esteemed monthly e-journal exclusively crafted for CMA students. This platform, managed by the Directorate of Studies at ICAI, aims to provide a space for your insights, experiences and knowledge-sharing within the CMA community.

Submission Guidelines:

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- ⦿ **Topic:** The articles can cover a wide spectrum of subjects, including but not limited to advancements in finance, industry insights, case studies, personal experiences and emerging trends in the field.
- ⦿ **Originality:** We encourage you to share your unique perspectives and experiences. Ensure that your submission has not been published elsewhere.

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Submission Process: Please send your article to studies.ebulletin@icmai.in with the subject line "**CMA Student E-Bulletin Submission - [Your Name, Registration No.]**". Include a brief author bio and a high-resolution photograph to be featured alongside your article.

Recognition and Rewards: Selected articles will be featured prominently in the CMA Student E-Bulletin, providing you with a valuable platform to showcase your expertise. Additionally, authors of published articles will be acknowledged and the top contributors may be eligible for special recognition and rewards.

We believe that your unique insights and experiences will contribute significantly to the enrichment of the CMA Student E-Bulletin. Your participation will not only enhance your visibility within the CMA community but also foster a culture of knowledge-sharing and collaboration.

Best Regards,

Team DoS

The Institute of Cost Accountants of India

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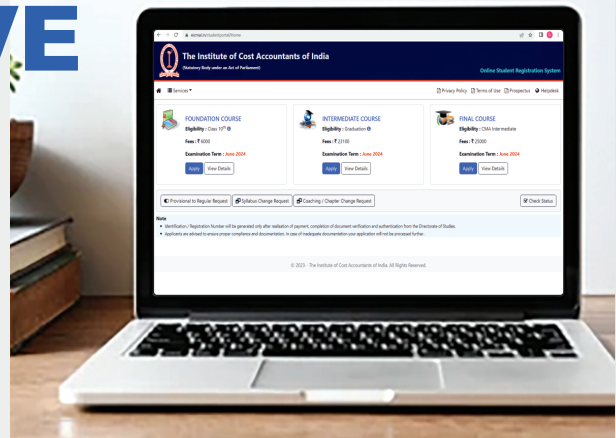


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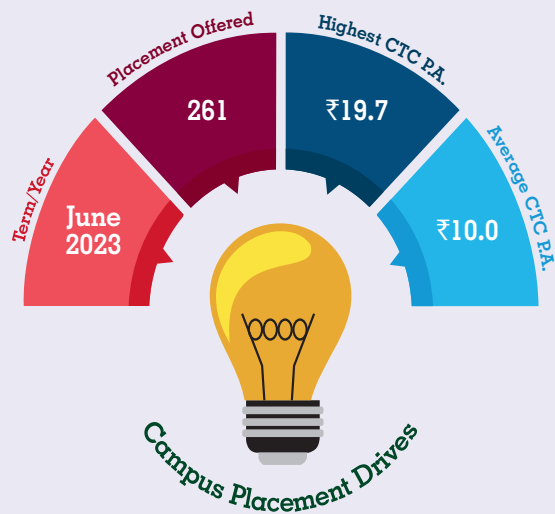


CMA

Campus Placement Initiatives

2023

Campus Placement Statistics



Organized 1st Overseas Campus Placement Drive in December 2023



Career Counselling & Placement Committee

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☎ +91 94323 82747 / 98308 86751 / 98748 57118

Headquarters:

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Headquarters

CMA Bhawan, 12, Sudder Street, Kolkata - 700016

Ph: 033-40364777/40364722/40364726

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Ph: 011-24622156/24622157/24622158

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