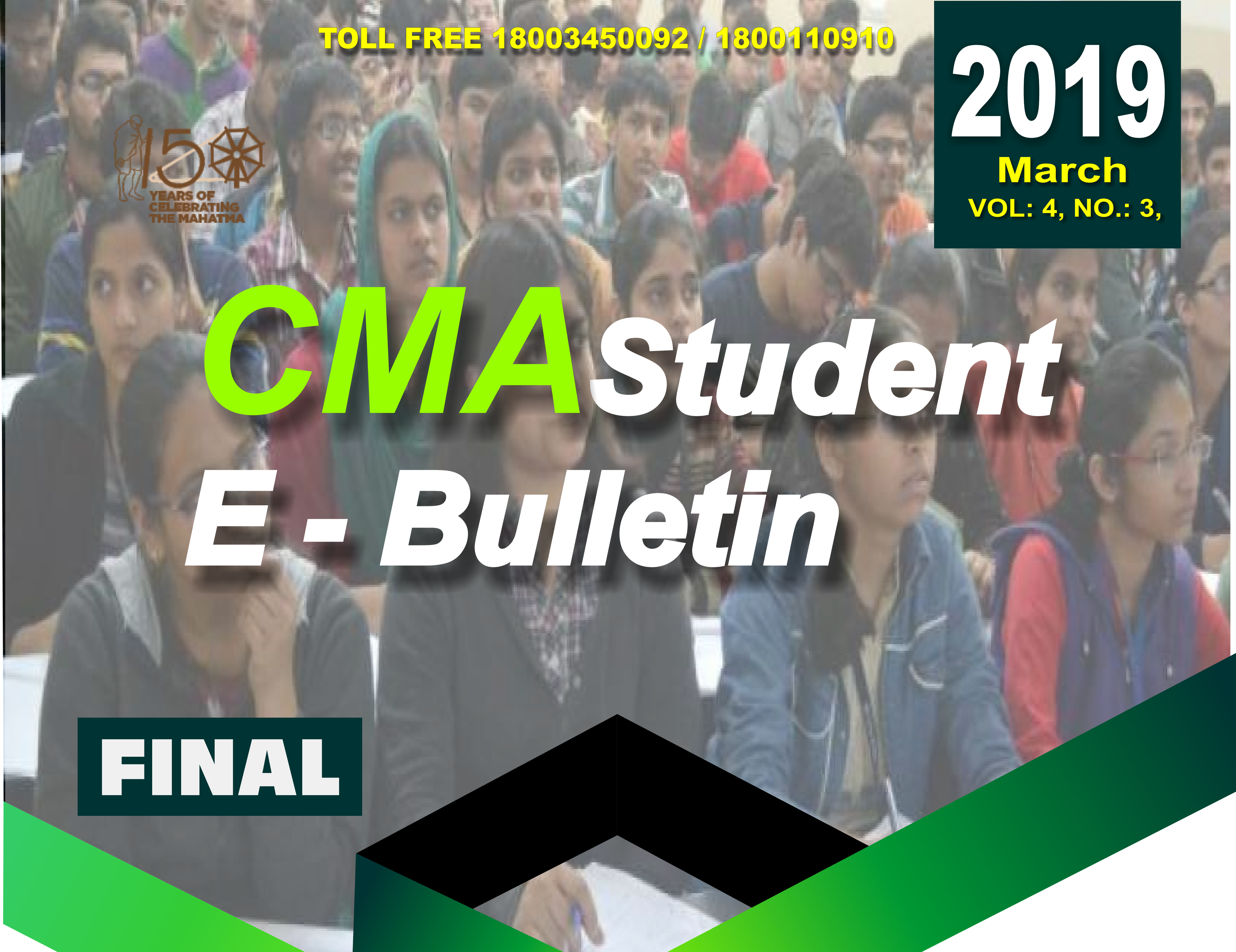

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150 YEARS OF CELEBRATING THE MAHATMA

2019
March
VOL: 4, NO.: 3,

CMA Student E - Bulletin

FINAL

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA

Message from

The Chairman

CMA Manas Kumar Thakur

**Chairman,
Training & Education Facilities (T& EF) Committee**

CMA MANAS KUMAR THAKUR
Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)

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MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings,

"Satisfaction lies in the effort, not in the attainment"- M.K.Gandhi.

My sincere thanks to those who have cleared their examination for December,2018 term of examination . You continued your winning streak and go forward with your educational journey. It will be a long journey but I know will make it to the very end successfully. Congrats!

Now I want to state few words to those who, despite their good efforts could not make it. It is a mistake to suppose that people succeed through success; they often succeed through failures. Strength does not come from physical capacity. It comes from an indomitable will. To lose patience is to lose the battle. I am including one interesting quote that may inspire you during times of disappointment and depression — times when you feel the whole world is against you.

"Success and failure, **we** think of them as opposites, but they are really not. There are companions. the hero and the sidekick." — Laurence Shames.

Success builds character, failure reveals it. You might be aware that the Directorate of Studies has started e-version of **Work Book for all levels;** which will help you in practicing all papers. My request is to all of you that please try to grab the opportunities coming your ways to make you more knowledgeable and competent at the same time. **New Mock Test Papers (MTPs)** are getting uploaded for the forthcoming June,2019 term of examination. Study Materials are revised with new contents; wherever applicable. **Notifications and circulars** are also been uploaded for providing sufficient awareness to compete you better, keep on watching. E-bulletins are also getting uploaded every month, containing matters related to individual papers. As you all are aware that there is no substitute for sincere and hard working and it gives rich dividend if tried sincerely. Do it now, sometimes later, becomes never.

In the words of Swami Vivekananda-"Arise, Awake and stop not until the Goal is achieved".

Best of luck for your entire future endeavour,

CMA Manas Kumar Thakur

Be a CMA, be a Proud Indian

"Behind every successful business decision there is always a CMA"

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150 YEARS OF CELEBRATING THE MAHATMA

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KNOWLEDGE
Update

In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

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March 2019, Issue

GROUP: 3, PAPER: 13

CORPORATE

LAWS & COMPLIANCE (CLC)

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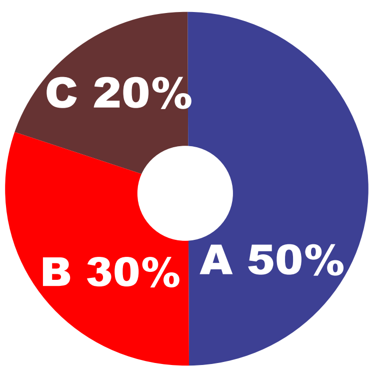
Your Preparation Quick Takes



Syllabus Structure
A Companies Act **50%**
B Other Corporate Laws **30%**
C Corporate Governance **20%**

Learning Objectives:

Read the Study Material minutely.
For details or if you don't understand Study Material or the section is important to identify the topic, then refer to Bare Act, otherwise reference to Bare Act is not necessary. For Company Law, book by Avtar Singh is recommended. For other laws Institute Study Material is sufficient.
The words used in any of the texts as mentioned above should be understood by immediate reference to the Dictionary.
The main points coming out in any of the provisions should be either underlined or written in separate copy which has to be repeated again and again.
Theoretical knowledge should be adequate and clear before solving practical problems.
Don't write wrong English. It changes the meaning and therefore answer may be wrong even when the student's conception is clear. Also don't make spelling mistakes.

The Contract Law

1.0 meaning of Contract

A. Contract is an agreement or a promise enforceable by law creating an obligation of parties to do or not to do anything. Mere contract to make a contract is not a contract.

B. Contract can be either implied or expressed. In implied contract the conduct of the parties satisfies that one party is making an offer and the other party is accepting it. agreed place. Contract, therefore would comprise (i) agreement and (ii) legal obligation i.e. the agreement should be enforceable by law.

1.1 agreement

A. When two or more persons meet upon a common purpose and consent to do or refrain from doing anything, it will be called an agreement. Person can be a natural person or juristic person. In all agreement there is an obligation, which means duty to do or abstain from doing what one has promised to do or abstain from doing.

The act defines "every promise and every set of promises forming the consideration for each other, is an agreement"

1.2 legal obligation

It is said that all contacts are agreements but all agreements are not contracts. This means that in order to be a contract there must be more then mere agreement. These are legal enforceability and consideration. Legal enforceability means that the contract, if not fulfilled should have legal consequences and parties to the contract should be aware of it. Consideration is the price which the other party agrees to pay to the person who performs the contract. This is to differentiate those agreements which are not legally enforceable, i.e. agreeing to go to some social/ religious function.

1.3 'promisor', 'promisee' and 'promise'.

A. Person making the proposal is called promisor and the person accepting the proposal is called promisee. The subject matter of the proposal is called promise. Person making the promise is also called offeror and the promissee is called offeree and promise is called offer.

1.4 agreements not contracts

The following agreements are not contracts.

(i) Agreement relating to social matters.
(ii) Domestic arrangements between husband and wife.

1.5 essentials of a valid contract

A. The essential of a valid contract are as follows:

(i) Offer and acceptance. There has to be an offer by other promisor to be accepted by other person, i.e. promisee. Both offer and acceptance should not suffer from illegality.
It has been scitifically established that thereiis atime lag between making an offer nad acceptance of the offer.if a person having a plot of land offers it to someone he becomes the offerer and the the other person becomes the oferee or promisor nad promise repectivley. If the buyer offers to buy by offering a price, he becomes the offerer. Offer once accepted becomes a contract.

(ii) Free consent of parties. Contract is voluntary agreement by parties and the consent should be free and genuine. No body can force other party to make a contracyt. They should agree upon the same thing in the same sense. Consent shall be said to be free if it is not caused by (1) coercion, (2) undue influence, (3) fraud, (4) misrepresentation & (5) mistake. These terms are discussed further at later stage.

(iii) Intention to create legal relations or an intention to have legal consequences. The parties should know that by contracting, a legal relationship is being created and they have to face the consequences for non-performance of the contract.paries shuld not have feeling that if I di not operform nothing will happen under law. Contract is a kind of commitment and contracting paries cannot come opout of the commitment at sweet will of either of the party.

(iv) there shuld a Legal object not opposed to public policy- the object and subject matter of the contract should be lawful i. e should not be against law and neither can be against the public policyi. E. Govt. Policy.

(v) Lawful Consideration – means any price either in cash or kind, which the promisee has to pay to the promisor for performance or non-performance as per mutual agreement

(vi) Competent parties –contract shuld be always inter vivos .i. e between two living persons. Any living persons incudding artifical, persons can contract unless should not be barred by contract law or any other law or by court order to enter into contracts or conitinue with a contract already made.

(vii) Terms of the contract are certain. There should not be any ambiguity or vagueness in terms of the agreement; otherwise it would lead to confusion regarding subject matter of contract.

(viii) Possibility of performance: the terms and conditions of the contract should be technically possible to comply.

2.0 Types of contract

(a) Void contract: means a contract which suffers from any shortfall which is essential to a contract. Therefore such contacts shall not legally enforceable and considered to be non-existent.

Some of contracts have been Expressly declared void under the law. They are:

(i) contract in restraint of marriage
(ii) contract in restraint of trade
(iii) contract in restraint of Legal Proceedings
(iv) Uncertain Agreements: terms and conditions are uncertain and unclear so far performance and other parameters are concerned.
(v) Wagering Agreements: contracts of betting and gambling.
(vi) Agreements contingent on impossible acts: some performance which depends on issues which are inpossible.
(vii) Agreements to do impossible Acts. Here there is something which is naturally uipossible nad something which is technically impossible.

(b) Valid contacts: contract having all the essentials of a valid contact shall be considered valid in law.

(c) Voidable contract: when a contract suffers from certain irregularity, one of the parties may have the intention to condone that irregularity and consider the contract as valid. Alternatively, the party may choose to make the as void. Agreement becomes enforceable at the option of one of the parties.

(d) Unenforceable contract: contract otherwise valid is not capable of being enforced in a court of law, because of some technical grounds.

(e) Illegal and unlawful contract: contrary to law.

(f) Express and implied: when terms of contract or principal terms are discuded before hand it is called express. If parties behanve I amaaner that there is acontrcat even without tal;ikng it sic accled eimlied.

(g) A bus is running on aprticlar route and u get into it there is aimlied cotrct berqeen the passenger nad the bus that it will ply in particular direction anf the passenger has to pay.

Quasi contract: sometimes people behave in a manner which shows that there is relationship in the nature of the contract. certain relationship resembling those created by contract . there may not be nay cotract existing. Suppose your friend is pasing through fiancila distress and you pay some paymenysts to tghird aprty on his behalf. U r supposed get back thoush u have not made any contract to lend your friend.

Supplies necccsities to a person even when he doeas not want that but accepts the sullpies ois an example for quasi contract.

There may be situation where one party supplies the other party or his dependants any essential thing; this will amount to quasi contract. Similarly a person, who is interested in the payment of money, which another is found by law to pay and who therefore pays it, is entitled to be reimbursed by the other. Obligation delivers anything to other person or his dependants; the later is found to make compensation

9. Illegal agreement

A. An illegal agreement is one, which, like the void agreement has no legal effect as between the immediate parties, but has the further effect that transactions collateral to it become tainted with illegality and are therefore not enforceable.

(h) Executed: parties have signed and executory: one of the part yet to sign

(i) Contingent contract

A "contingent contract" is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

i) A contingent contract cannot be enforced by law until and unless that event has happened and in case the event becomes impossible, such contracts become void.
ii) A contract contingent upon not happening of an event can be enforced only when the event becomes impossible.
iii) A contract contingent on lapse of time can be enforced if at the expiration of the time fixed such event has not happened or before the time fixed the event becomes impossible.
iv) Contingent contracts to do any thing if an impossible event happens are void.

2.3 valid contracts transforming into void contract.

Sometimes a contract was legally valid at the time it was made, but subsequently with the change of situation, it may turnout to be non-operative.

(i) Subsequent illegality
(ii) Performance becoming impossible due change in situation
(iii) it is proved that the contract was made with coercion, undue influence.
(iv) In case on contingent contract, when the event on which the subject mater of the contract depends has become virtually impossible.

3.0 Offer and acceptance

3.1 A. An offer is a proposal by one person whereby he expresses his willingness to enter into a contractual obligation in return for a promise, act or forbearance.

The following are the rules, which govern offers:

(i) It must be clear, definite, complete and final. It must have an willingness to do or not to do anything.
(ii) Must be communicated to the offered i.e. by one person to another person. Communication shall be deemed to be complete when the knowledge of the offer reaches the offeree (except when it sent by post).
(iii) It may be expressed by word, may be in oral or written or it may be implied by conduct.
(iv) Communication of offer may be specific or general. Specific would mean that it is open for acceptance to those persons only. General offer, on the other hand would mean it can be accepted by any person.
(v) Invitation to make an offer is not an offer. If any person invites offers for sale of a particular item, it may not be necessary that he would sale at any offer or for that matter the best offer he has received. He may choose not to sale at all.
(vi) An offer should not have a condition that if the acceptor does not act contrary, it would amount to acceptance.
(vii) Offer to make an offer is not an offer.

3.2 Revocation of an offer. An offer may be revoked/ come to an end by the offeror any time before acceptance by:

(i) Communicating that the offer has been revoked / withdrawn.
(ii) Lapse of time as stipulated in the offer and if time is mentioned, after lapse of reasonable time.
(iii) Not accepted in the mode as mentioned in the offer and if mode is mentioned in the offer, by the usual mode. Usual mode would mean the mode by which such offers are usually accepted.
(iv) Non-fulfillment of condition(s) precedent to acceptance.
(v) By death or incapacity of the proposer or acceptor.
(vi) By rejection either express or implied by the person to whom it is made.
(vii) Offers shall also lapse if there subsequent illegality in the offer or there is destruction of the property which forms subject matter of the contract.

3.3 Acceptance and rules governing an acceptance

A. Acceptance is receiving and consenting to the proposal or promise by the promisee.

Rules governing acceptance are as follows.

(a) Acceptance may be oral or in writing or implied from the conduct.
(b) Acceptance should be by the person to whom the offer has been given.
(b) Acceptance shall be in accordance with the procedure specified in the offer.
(c) Acceptance must be unqualified and absolute.
(d) A counter offer or conditional acceptance operates as a rejection of the offer and causes it to lapse.
(e) Acceptance must be communicated to the offeror for acceptance.
(f) Mere silence or quite acceptance not evidenced by words or conduct on the part of the offeree does not amount to acceptance.
(g) Acceptance must be given within the time stipulated in the offer or within reasonable time. Time may extended by the person who has given the offer.
(h) Rejected offers can be accepted on renewal of the offer.

4.0 Consideration

"as the price for which a promise is bought".

Rules governing consideration:

(a) Every simple contract must be supported by valuable consideration otherwise it is formally void.
(b) There must be mutuality i.e. there should be give and take policy between the parties.
(c) Consideration must be real and not vague, indefinite or illusory.
(d) It need no to be adequate but it must have some value.
(e) Consideration must be lawful. It should be forbidden by law, opposed to public policy, immoral and is injurious to any person.
(f) Consideration must be paid by the promissee or any other person with the consent of the promissee.
(g) consideration may be past present or future.
(f) Consideration must be something more than the promisee is already bound to do for the promisor.

4 0 agreement without consideration

A. An agreement without consideration is valid when:

(i) If it is in writing and registered and is made out of natural love and affection between the parties.(gift)
(ii) If it is made to compensate a person who has done something voluntarily for the promisor or done something which the promissor was legally compellable to do.
(iii) If it is a promise to pay a debt barred by law of limitation. Since the debt is time barred it cannot be recovered. However if there is any agreement to recover the amount without any consideration.
(iv) No consideration is required for creation of an agency though agency is a contract between the principal and the agent.
(v) Agreement to contribute to charity requires no consideration though legally it is enforceable.

5. 0 flaws of contract

A. The various flaws in a contract are :
(i) Incapacity, (ii) Misrepresentation, (iii) Fraud, (iv) Undue influence, (v) Coercion, (vi) Mistake, (vii) Illegality, (viii) Impossibility.

5.1 Incapacity: any person including a natural person can contract. Since a contract has to be between two living persons (inter vivos) parties to the contract should be living at the time of execution of contract. In case of company or any artificial person, such artificial person should be existing. Therefore unincorporated company is competent to contract and so is a company, which has been dissolved by process of law. person is competent to contact except –

(1) He is a minor, as per law, which applies to him. An agreement with a minor is absolutely void and inoperative. However when there is an agreement with minor by which he is beneficiary shall be valid. Since the agreement is void ab initio, it cannot be ratified when minor attains the age of maturity.

Minor can be appointed as apprentice because he is protected under the Apprenticeship act, but minor cannot be legally considered as partner, surety, shareholder, agent because all these relationship are legal contractual relationship which a minor cannot make. However, if necessaries are supplied to minor, the supplier is entitled to recover form the assets of minor.

(2) He is of unsound mind; sound mind has been defined as."a person if at the time when he makes contract, he is capable of understanding it and of forming a rational judgment as to its effects upon his interests."

Unsound mind may arise from lunacy, idiocy, drunkenness, mental decay, hypnotism etc. contracts with such persons when they are at the state of unsound mind is void ab initio and not operative. However, like minor, such persons can derive benefit out of the contract.

(3) He is bared by any law/ order of court to enter into contracts.
There are some categories of person who cannot contract. They are foreign sovereigns and ambassadors, alien enemies, convict, etc.

(4) Insolvent

(5) Married women- not for husband's properties, but for own properties.

5.2 Misrepresentation: (a) when one party makes a statement to other party either before the contract or after contract, which is not true with an intention to induce the other party to make the contract, it is positive assertion of fact or information, which is not true though he believes it to be true.
(b) any breach of duty which without an intention to deceive, gains an advantage to the person committing it or anyone claiming under him, by misleading another.
(c) Causing, however innocently, a party to an agreement, to make a mistake to the substance of the thing, which is the subject of the agreement.

5.3 Fraud : all acts committed by a person with an intention to deceive another .i.e. false statement with intention to cheat, suppression of material fact, false promises.

5.4 Undue influence: A contract is said to be induced by undue influence where(i) the relation between the parties are such that one is in a position to dominate the will of the other, and(ii) uses the position to obtain an unfair advantage over the other." Dominating position would be determined considering (a) one has real or apparent authority over the other (b) there is fiduciary relationship ,i.e. mutual trust and confidence (c) mental condition is temporarily not normal.

5.5 Coercion: coercion is committing or threatening to commit, any act forbidden by Indian penal code or unlawful detaining or threatening to detain, any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement."

5.6(vi) Mistake: mistakes are classified into two: (i)mistake of law: every person making a contract is deemed to have the knowledge of the law of the country and a contract cannot be canceled or withdrawn on the plea that the law was not known to any person.

(iii) mistake of fact: fact must be essential to the contract
(iv) (i) bi lateral mistak (ii) Unilateral mistake: (a) normally not allowed as mistake and contract is valid (b) if due to fraud, voidable

5.8 Illegality : what contracts are not lawful

(j) When it is forbidden by law.
(ii) When it would defeat the provisions of any law or is fraudulent
(iii)When it involves or implies injury to the person or property of another

Impossibility

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GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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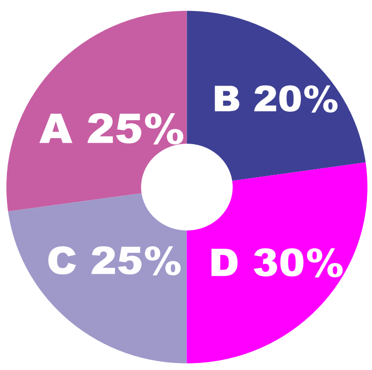
Your Preparation Quick Takes



Syllabus Structure

A Investment Decisions **25%**
B Financial Markets and Institutions **20%**
C Security Analysis and Portfolio Management **25%**
D Financial Risk Management **30%**

Learning objectives:

After studying this section, you will be able to:

- understand the different methods of selecting projects under capital rationing
- solve the numerical problems of capital rationing

Methods of selecting projects under capital rationing

The method of selecting investment projects under capital rationing situation will hinge upon whether the projects are divisible or indivisible. Besides, fund constraint may be either single period one or multi-period one.

So there are four categories of problems associated with capital rationing:

(i) Projects are divisible and fund constraint is a single period one,
(ii) Projects are indivisible and fund constraint is a single period one,
(iii) Projects are divisible and fund constraint is a multi-period one, and
(iv) Projects are indivisible and fund constraint is a multi-period one.

However, these four categories do not cover all sorts of situation. There are also mixed cases. For example, some projects are divisible and some are indivisible while fund constraint is a single period one etc. But here only the four major categories of problems associated with capital rationing are discussed.

Situation I: Projects are divisible and fund constraint is a single period one

To determine the optimal project mix for maximizing the total NPV, the following steps are to be adopted:
(i) Calculate the profitability index of each of the projects under consideration.
(ii) Rank the projects in descending order of the profitability index.
(iii) Go on accepting projects from the top and move down till the entire fund is exhausted.

Illustration: From the following information determine the optimal combination of projects assuming that the projects are divisible.

Project	Required Initial Investment	NPV at appropriate cost of capital
B_1	1,00,000	20,000
B_2	3,00,000	35,000
B_3	50,000	16,000
B_4	2,00,000	25,000
B_5	1,00,000	30,000

Total fund available is 3, 00,000.

Solution:

Project	Profitability Index (PI)	Projects arranged in descending order of PI	Cumulative fund exhausted	Cumulative NPV
B_1	20,000/1,00,000 = 0.20	B_3 (0.32)	50,000	16,000
B_2	0.117	B_5 (0.30)	1,50,000	46,000
B_3	0.32	B_1 (0.20)	2,50,000	66,000
B_4	0.125	B_4 (0.125)	50,000 (Rs. 2, 00,000 x $\frac{1}{4}$)	72,250
B_5	0.30	B_2 (0.117)	-	-
			3, 00,000	

Therefore the optimal combination of projects is B_3, B_5, B_1 and $\frac{1}{4}$ th of B_4.

Situation II: Projects are indivisible and fund constraint is a single period one

Under this situation the following steps are to be followed for solving the problem:

(i) Identify all feasible combinations of projects that satisfy the fund constraint.
(ii) Choose the feasible combination whose aggregate NPV is maximum and consider it as the optimal project mix.

Illustration:

Using the same data in the previous illustration, determine the optimal project mix on the basis of the assumption that the projects are indivisible.

Solution:

Feasible Combination	Aggregate of NPVs (Rs.)
B_1 B_3	36,000
B_1 B_4	45,000
B_1 B_5	50,000
B_3 B_4	41,000
B_3 B_5	46,000
B_4 B_5	55,000
B_1 B_3 B_5	66,000

Here the optimal feasible project mix will be B_1, B_3, B_5 as the aggregate of their NPVs is maximum.

Situation III: Projects are divisible and fund constraint is a multi-period one

Under this situation, we assume that the NPVs of the projects are given and the firm allocates the fixed investment budget so as to maximize its NPV. To solve this type of problem, we have to formulate the linear programming problem (LPP).

Illustration:

Projects	NPV at appropriate cost of capital	Present Value of outlays	
		Period 1	Period 2
1	14	12	3
2	17	54	7
3	17	6	6
4	15	6	2
5	40	30	35
6	12	6	6
7	14	48	4
8	10	36	3
9	12	18	3

In this case the selection process is subject to restrictions on the total amount of investment in each of the periods: Rs. 50 in period 1 and Rs. 20 in period 2. Formulate a linear programming problem to determine the optimal project mix.

Solution:

Let X_j (j=1,2,......,9) denote the proportion of the j th project which is executed. The LP model can be written as:
Maximize NPV = $14X_1 + 17X_2 + 17X_3 + 15X_4 + 40X_5 + 12X_6 + 14X_7 + 10X_8 + 12X_9$
Subject to the two budget constraints:
$12X_1 + 54X_2 + 6X_3 + 6X_4 + 30X_5 + 6X_6 + 48X_7 + 36X_8 + 18X_9 \leq 50$
$3X_1 + 7X_2 + 6X_3 + 2X_4 + 35X_5 + 6X_6 + 4X_7 + 3X_8 + 3X_9 \leq 20$
$0 \leq X_j \leq 1$ (j = 1, 2,... ,9).

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Situation IV: Projects are indivisible and the fund constraint is a multi-period one
To deal with this problem, an integer programming problem must be used.

Illustration:

Using the same data in the previous illustration, determine the optimal project mix on the basis of the assumption that the projects are indivisible.

Solution:

Let X_j (j = 1, 2,...., 9) denote the proportion of the j th project.
The IPP can be written as:
Maximize NPV = $14 X_1 + 17 X_2 + 17 X_3 + 15 X_4 + 40 X_5 + 12 X_6 + 14 X_7 + 10 X_8 + 12 X_9$
Subject to,
$12 X_1 + 54 X_2 + 6 X_3 + 6 X_4 + 30 X_5 + 6 X_6 + 48 X_7 + 36 X_8 + 18 X_9 \leq 50$
$3 X_1 + 7 X_2 + 6 X_3 + 2 X_4 + 35 X_5 + 6 X_6 + 4 X_7 + 3 X_8 + 3 X_9 \leq 20$
$X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9 =$ 0 or 1

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GROUP: 3, PAPER: 15

STRATEGIC
COST MANAGEMENT-DECISIONMAKING (SCMD)

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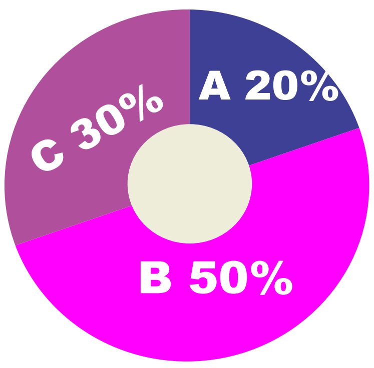
Your Preparation Quick Takes



Syllabus Structure

A Cost Management **20%**

B Strategic Cost Management Tools and Techniques **50%**

C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Learning Objectives:

The Strategic cost management framework provides a clear plan of attack for addressing costs and decisions that affect them. It helps to get answers on:

- Is there a plan for strategic cost management?
- Have the controlling functions for each significant cost in the organization been identified?
- Are there resources devoted to finding or obtaining new approaches to breaking cost barriers?
- Is cost modelling being used or is there an active effort to develop or buy cost modelling capability?

Transportation Matrix

Hereunder is an illustration and a solution that illustrates stepwise matrix to solve a transportation problem by Vogel's Approximation Method.

Illustration

A Company has 4 factories F_1 , F_2,F_3 and F_4 , manufacturing the same product. Production and raw material costs differ from factory to factory and are given in the table below in the first two rows. The transportation costs from the factories to the sales depots S_1 , S_2 and S_3 are also given. The last two columns in the table below give the sales price and total requirements at each depot and the production capacity of each factory is given in the last row.

	F_1	F_2	F_3	F_4	Sales Price/Unit(Rs.)	Requirement
Production Cost/Unit (Rs.)	15	18	14	13		
Raw Materials Cost/Unit (Rs.)	10	9	12	9		
Transportation Cost/Unit (Rs.)						
S_1	3	9	5	4	34	80
S_2	1	7	4	5	32	120
S_3	5	8	3	6	31	150
Production capacity	10	150	50	100		

Determine the optimal solution and the associated profit by using the Vogel's Approximation Method (VAM).

Solution

Step 1: Formulation of transportation matrix for a Feasible Solution
Convert the given data into cost matrix by adding together production cost, raw material cost and transportation cost. For example F1 S1 = 15+10+3 = 28.

	F1	F2	F3	F4	Demand
S1	28	36	31	26	80
S2	26	34	30	27	120
S3	30	35	29	28	150
Supply	10	150	50	100	350 / 310

(i) Convert the cost matrix, as at (i), into profit matrix by deducting the cost from the sale price. For example F1 S1 = 34 - 28 = 6. The demand total to 350 whereas the supply totals to 310. Therefore, add a dummy column, F5 with a capacity of 40 units, to balance the supply with demand. Consider the profit for the dummy cells as 'zero'.

	F1	F2	F3	F4	F5	Demand
S1	6	-2	3	8	0	80
S2	6	-2	2	5	0	120
S3	1	-4	2	3	0	150
Supply	10	150	50	100	40	350 / 350

(ii) Convert the Profit matrix into transportation matrix by deducting the each of the elements from the highest element, which happens to be numerical 8 in this case.

	F1	F2	F3	F4	F5	Demand
S1	2	10	5	0	8	80
S2	2	10	6	3	8	120
S3	7	12	6	5	8	150
Supply	10	150	50	100	40	350 / 350

Step 2: Deriving a Feasible Solution

(Ifind the difference between the smallest element and the next smallest element in that particular row or column. This difference is called the penalty for the given row and column. For example for row S1 the smallest element is '0', next smallest is '2' and the row penalty is '2'.

	F1	F2	F3	F4	F5	Demand	Row Penalty
S1	2	10	5	0	8	**80**	2
S2	2	10	6	3	8	**120**	1
S3	7	12	6	5	8	**150**	1
Supply	**10**	**150**	**50**	**100**	**40**	**350 / 350**	
Column Penalty	0	0	1	3	0		

(ii) Identify the row or column with the largest penalty. In this identified row or column, choose the cell which has the smallest element and allocate the maximum possible quantity to that cell in that row or column so as to exhaust either the supply from a particular source or satisfy the demand at a warehouse. If a tie occurs in the penalties, select that row/column which has minimum cost. If there is a tie in the minimum cost also, select that row/column which will have maximum possible assignments. It will considerably reduce computational work.

Reduce the row demand or the column supply by the amount assigned to the cell. If the row demand is now zero, eliminate the row; if the column supply is now zero, eliminate the column; if both the row demand and the column supply are zero, then eliminate both the row and column.

In the instant case the column penalty is the highest, i.e.3, for F4. Therefore, allocate 80 units to F4 S1 and proceed further.

	F1	F2	F3	F4	F5	Demand	Row Penalty
~~S1~~	~~2~~	~~10~~	~~5~~	~~0~~ ~~80~~	~~8~~	~~80~~	~~2~~
S2	2	10	6	3	8	**120**	1
S3	7	12	6	5	8	**150**	1
Supply	**10**	**150**	**50**	**100**	**40**	**350**	
Column Penalty	0	0	1	3*	0		

(iii) Re-compute the row and column difference for the reduced transportation table, omitting rows or columns crossed out in the preceding step.

	F1	F2	F3	F4	F5		Row Penalty
~~S1~~	~~2~~	~~10~~	~~5~~	~~0~~ 80	~~8~~	~~80~~	
S2	10 2	10	6	3	8	120	1
S3	7	12	6	5	8	150	1
	10	150	50	100	40		
Column Penalty	5*	2	0	2	0		

(iv) Repeat the above procedure until the entire supply at factories is exhausted to satisfy the demand at different warehouses.

	F1	F2	F3	F4	F5		Row Penalty
~~S1~~	~~2~~	~~10~~	~~5~~	~~0~~ 80	~~8~~	~~80~~	
S2	10 2	10	6	20 3	8	120	3*
S3	7	12	6	5	8	150	1
	10	150	50	100	40		
Column Penalty		2	0	2	0		

	F1	F2	F3	F4	F5		Row Penalty
~~S1~~	~~2~~	~~10~~	~~5~~	~~0~~ 80	~~8~~	~~80~~	
~~S2~~	10 2	90 10	~~6~~	20 3	~~8~~	~~120~~	~~2~~
S3	7	12	6	5	8	150	2
	10	150	50	100	40		
Column Penalty		2*	0	2	0		

	F1	F2	F3	F4	F5		
~~S1~~	~~2~~	~~10~~	~~5~~	~~0~~ 80	~~8~~	~~80~~	
~~S2~~	10 2	90 10	6	20 3	8	120	
S3	7	60 12	50 6	5	40 8	150	1
	10	150	50	100	40		

Final Allocation

	F1	F2	F3	F4	F5
S1	2	10	5	0 80	8
S2	2 10	10 90	6	3 20	8
S3	7	12 60	6 50	5	8 40

Step 3: Degeneracy test

When the quantities are allocated to cost cells within the matrix and if such allocations are less than m + n -1 allocations (where 'm' stands for number of rows and 'n' stands for number of columns), such a situation is said to be Degeneracy of a Transportation Problem. Here

m (Number of rows) = 3
n (Number of columns) = 5
Number of allocated cells = 7

m+n-1 = 3+5-1 = 7 = Number of allocated cells

Therefore, there is no degeneracy and we have a feasible solution. (A set of non-negative values xij, i=1, 2, ……, m; j = 1, 2, …., n that satisfies the number of rows to the number of columns is called a feasible solution to the transportation problem.)

Step 4:

A feasible solution (not necessarily basic) is said to be optimum if it minimizes the total transportation cost. An optimal solution is a feasible solution where the objective function reaches its maximum (or minimum) value – for example, the maximum profit or the least cost. A globally optimal solution is one where there are no other feasible solutions with better objective function values.

(I) Begin with the basic feasible solution containing (m+n-1) allocations.

	F1	F2	F3	F4	F5
S1	2	10	5	0 80	8
S2	2 10	10 90	6	3 20	8
S3	7	12 60	6 50	5	8 40

(i) Draw the matrix of Ui & Vj for the occupied cells. To begin with determine a set of nos. of Ui & Vj (Ui in relation to columns & Vj in relation to rows) such that Ui + Vj = Cij for all allotted cells. Initially choose arbitrarily any one of the Ui or Vj as zero. Generally, Ui or Vj is chosen from a row or column having maximum allocations.

Let Ui for S2 be 0
Vj for S2-F1 = 2-0= 2
Vj for S2-F2 = 10-0 = 10
Vj for S2-F4 = 3-0= 3
Ui for S1-F4 = 0-3 = -3
Ui for S3-F2 = 12-10 = 2
Vj for S3-F5 = 8-2 = 6
Vj for S3-F3 = 6-2 = 4

	F1	F2	F3	F4	F5	Ui
S1	2	10	5	0 80	8	-3
S2	2 10	10 90	6	3 20	8	0
S3	7	12 60	6 50	5	8 40	2
Vj	2	10	4	3	6	

(ii) Prepare table for Δ ij = C ij – (Ui + Vj) for all unallocated (empty) cells.

Δ ij for S1-F1 = 2-(-3+2) = 3 Δ ij for S1-F2 = 10-(-3+10) = 3
Δ ij for S1-F3 = 5-(-3+4) = 4 Δ ij for S1-F5 = 8-(-3+6) = 5
Δ ij for S2-F3 = 6-(0+4) = 2 Δ ij for S2-F5 = 8-(0+6) = 2
Δ ij for S3-F1 = 7-(2+2) = 3 Δ ij for S3-F4 = 5-(2+3) = 0

	F1		F2		F3		F4		F5	
S1	2	3	10	3	5	4	0	80	8	5
S2	2	10	10	90	6	2	3	20	8	2
S3	7	3	12	60	6	50	5	0	8	40

Examine all Δij for the unallocated (empty) cells. If all the Δ ij cells are ≥0 , then the solution is optimal. In case any of the Δ ij cells contains a zero then there is also an alternative optimal solution. There will be as many optimal solutions as the number of zeros in the Δij cells.

As all the Δij cells are ≥0 the solution is optimum. The optimal solution and the associated profit are as follows:

		Qty	Maximum Profit
S1	F4	80 x 8	= 640
S2	F1	10 x 6	= 60
	F2	90 x (-2)	= - 180
	F4	20 x 5	= 100
S3	F2	60 x (- 4)	= - 240
	F3	50 x 2	= 100
	F5 (dummy)	40 x 0	= 0
		350	= **480**

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DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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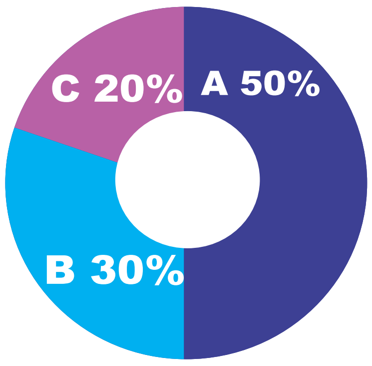
Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Tax Practice and Procedures **20%**

Learning Objectives:

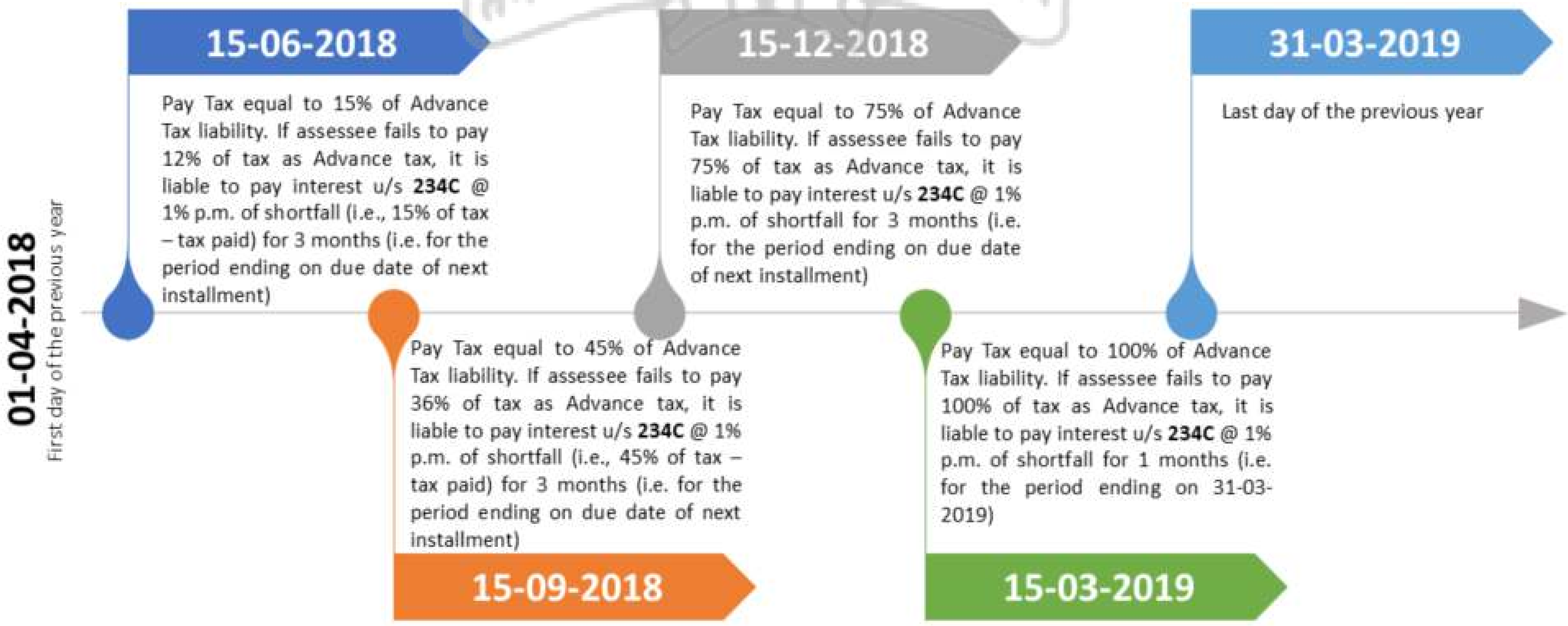
To develop basic idea about the problem of International double taxation
To get acquainted with the methods of reliefs
To have acquaintance with the basic provisions of the provisions of the Indian Income-tax Act regarding reliefs for double taxation.

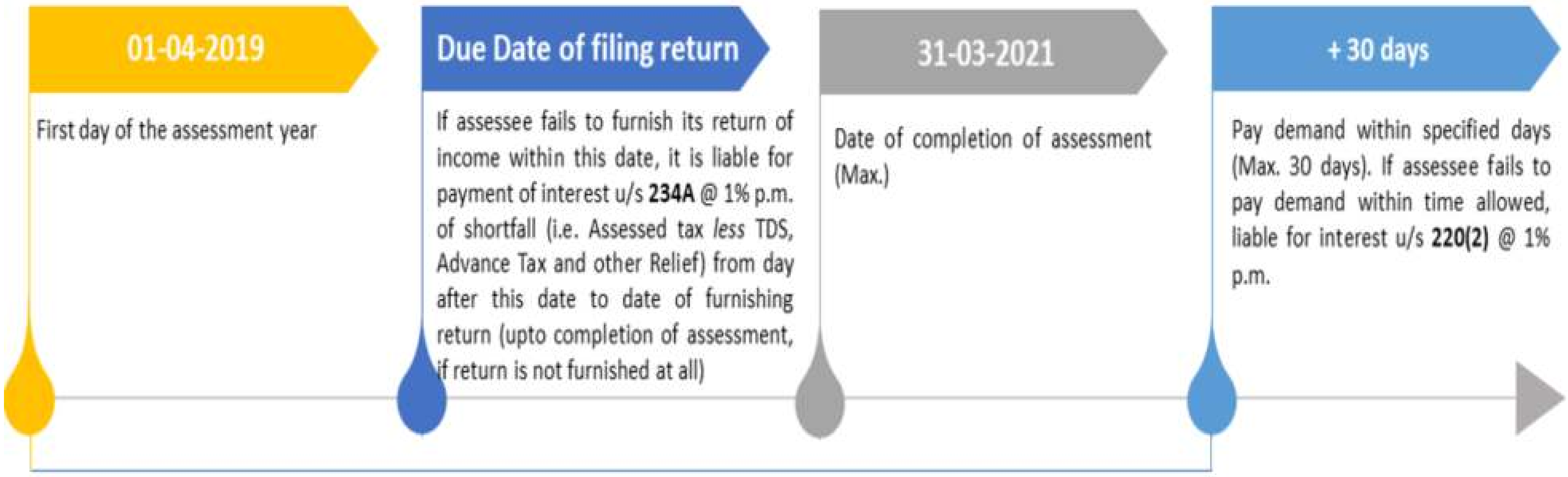
INTEREST u/s 234A, 234B & 234C

Interest payable by the assessee:

Dates	Interest liability of an assessee	
01-04-2018	First day of the Previous Year	
15-06-2018	Pay Tax equal to 15% of Advance Tax liability. If assessee fails to pay 12% of tax as Advance tax, it is liable to pay interest u/s **234C** @ 1% p.m. of shortfall (i.e., 15% of tax – tax paid) for 3 months (i.e. for the period ending on due date of next installment)	
15-09-2018	Pay Tax equal to 45% of Advance Tax liability. If assessee fails to pay 36% of tax as Advance tax, it is liable to pay interest u/s **234C** @ 1% p.m. of shortfall (i.e., 45% of tax – tax paid) for 3 months (i.e. for the period ending on due date of next installment)	
15-12-2018	Pay Tax equal to 75% of Advance Tax liability. If assessee fails to pay 75% of tax as Advance tax, it is liable to pay interest u/s **234C** @ 1% p.m. of shortfall for 3 months (i.e. for the period ending on due date of next installment)	
15-03-2019	Pay Tax equal to 100% of Advance Tax liability. If assessee fails to pay 100% of tax as Advance tax, it is liable to pay interest u/s **234C** @ 1% p.m. of shortfall for 1 months (i.e. for the period ending on 31-03-2019)	
31-03-2019	Last day of the Previous Year	
01-04-2019	First day of Asst. Year	If assessee fails to pay 90% of assessed tax within 31-03-2019, it is liable to pay interest u/s **234B** @ 1% p.m. of shortfall from 01-04-2019 to date of completion of assessment.
31-07-2019 / 30-09-2019 / 30-11-2019	Due Date of furnishing return. If assessee fails to furnish its return of income within this date, it is liable for payment of interest u/s **234A** @ 1% p.m. of shortfall (i.e. Assessed tax less TDS, Advance Tax and other Relief) from day after this date to date of furnishing return (upto completion of assessment, if return is not furnished at all)	
31-03-2021	Date of completion of assessment (Max.)	
	Pay demand within specified days (Max. 30 days)	
	If assessee fails to pay demand within time allowed, liable for interest u/s **220(2)** @ 1% p.m.	

Interest payable for the previous year





If assessee fails to pay 90% of assessed tax within 31-03-2019, it is liable to pay interest u/s **234B** @ 1% p.m. of shortfall from 01-04-2019 to date of completion of assessment.

Example

The following particulars are furnished by Ms. Madhuri for the financial year 2018-19:
Tax on total income (paid on 31.7.2019) ₹ 50,000.
Date of filing the return 1.8.2019
Due date for filing the return 31.7.2019
Compute the total interest payable under sections 234A, 234B & 234C.

Solution

Calculation of Interest Payable by Ms. Madhuri

Particulars	Sec	Details	Amount	Amount
Interest for delayed filing of return of income	234A	₹ 50,000 * 1%		500
Interest for default in payment of advance tax for the months of April 19 to July 19	234B	₹ 50,000 * 1% * 4		2,000
Interest for deferment of advance tax	234C			
- Default in payment of 1st installment		(₹ 50,000 * 15%) * 1% * 3 months	225	
- Default in payment of 2nd installment		(₹ 50,000 * 45%) * 1% * 3 months	675	
- Default in payment of 3rd installment		(₹ 50,000 * 75%) * 1% * 3 months	1,125	
- Default in payment of 4th installment		₹ 50,000 * 1% * 1 month	500	2,525
Total Interest				5,025

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CORPORATE FINANCIAL REPORTING (CFR)

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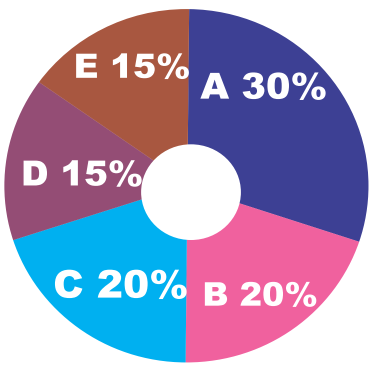
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **30%**
B Accounting if Business Comminations
& Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **15%**
E Government Accounting in India **15%**

Learning Objectives:

After studying the present section of Corporate Financial Reporting you will be able to:
- Learn the importance of reporting of Labour Practices and Decent Work Conditions.
- Know the associated GRI-G4 Indicators.

Corporate Financial

An Introduction to the theory and practice of share-based payment transactions under Ind AS 102
In a share-based payment transaction the entity

(a) receives goods or services from the supplier or employee and recognizes it as asset or as expense (when no asset is qualified for recognition), and
(b) issues equity instruments (called equity-settled transaction) or incurs liability to transfer cash or other asset based on the value of the equity instruments of the entity or another group entity (cash-settled) to settle the transaction, or
(c) neither issues equity instruments nor incurs liability as parent or any other entity in the group settles the transaction (it is also called equity-settled).

Equity instruments include shares and share options.

Before Ind AS, for the traditional cases of issuing shares to the employees in exchange of their service Guidance Note of the ICAI was followed. Now, Ind AS 102 provides standard for all types of share-based payment transactions.

For the equity-settled transactions, the entity measures the goods or services received, and the corresponding increase in equity, directly, at the **Fair Value (FV)** of the goods or services received (at the measurement date). If the entity cannot estimate reliably the FV of the goods or services received, measure their value, and the corresponding increase in equity, indirectly, by reference to the FV of the equity instruments granted (at the grant date).

For transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.

If the equity instruments granted vest immediately, on grant date the entity shall recognize the services received in full, with a corresponding increase in equity.

If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period.

For the cash-settled transactions, the entity measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

Where the terms of the arrangement provide the entity or the counter party with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an **equity-settled** share-based payment transaction if, and to the extent that, no such liability has been incurred.

The entity in a group receiving the goods and services shall measure them as equity settled if it has no obligation to settle (issue of equity or incurring liability for cash arises to other entity in the group). The entity in a group settling the transaction shall recognize the transaction as equity settled if it is settled by issue of its own shares and as cash-settled otherwise.

Accounting for share-based payment transactions:

For equity-settled transaction:

Asset/Expense Dr. and Equity Cr.
For cash-settled transaction:
Asset/Expense Dr. and Liability/ Asset Cr.
After a brief theoretical introduction to the standard on share-based payment transaction some hypothetical cases (simple) on the subject are discussed in the following section.

1. D Ltd. offers shares to its employees as bonus for meeting a target. Is it a share based payment transaction? Is it equity settled or cash settled?

Ans: It is share-based payment transaction. It is equity settled share based payment transaction as D issues its own shares against receiving of services from the employees.

2. Mr. Z is granted share options conditional upon completing 2 years' service. How is the transaction recognised?

Ans: The transaction will be recognized as equity-settled share based payment transaction. The services from the employee will be assumed to be rendered in future during the vesting period. In each financial statements falling in the vesting period the fair value of the share options as on the grant date will be recognized in proportion of the period expired to the total vesting period.

3. Mr. X is an employee of P Ltd. and also holder of equity shares of P. P makes a right issue on equity and X receives his right. Is it a share based payment transaction?

Ans: No. For the purpose of this standard, a transaction with an employee or other party in his/her capacity as a holder of equity instruments of the entity is not a share based payment transaction.

4. D Ltd. grants 10 share appreciation rights to Q, an employee, entitling him to receive cash payment for the increase in quoted price of D's shares from the exercise price of Rs. 500 per share after 3 years. How the transaction should be recognized if it is assumed for a) for his past service, b) for his service in future 3 years?

Ans: The transaction should be recognized as cash-settled share based payment transaction. a) For past service, the entity shall recognize immediately the services received and a liability to pay for them at fair value of the rights on the grant date. b) For future service transaction will be recognized in the financial statements at fair value of the rights on the grant date proportionate to the period expired to total vesting period.

5. What amount of expenses will be recognized in each year?

a) Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is Rs. 30.

Calculation of Remuneration expense and Cumulative remuneration expense for 3 years

Year	Calculation	Cumulative remuneration expense (Rs.)	Remuneration expense recognized in each year (Rs.)
1	400*100*30*1/3	400000	400000
2	400*100*30*2/3	800000	400000
3	400*100*30*3/3	1200000	400000

b) Z Ltd. estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the share options.

Year	Calculation	Cumulative remuneration expense (Rs.)	Remuneration expense recognized in each year (Rs.)
1	400*100*30*80%*1/3	320000	320000
2	400*100*30*80%*2/3	640000	320000
3	400*100*30*80%*3/3	960000	320000

c) During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three-year period from 20 per cent to 16 per cent. During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 16 per cent to 13 per cent. During year 3, a further 14 employees leave.

Year	Calculation	Cumulative remuneration expense (Rs.)	Remuneration expense recognized in each year (Rs.)
1	400*100*30*84%*1/3 (Note #)	336000	336000
2	400*100*30*87%*2/3 (Note #)	696000	360000
3	348*100*30*3/3(Note #)	1044000	348000

Note #: At the end of year 1, 16% is revised estimated departure, balance 84% is taken for calculation, at the end of year 2, 13% is revised estimated departure, balance 87% is taken for calculation and at the end of year 3, 52 is actual departure, and balance 348 is taken for calculation.

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YEARS OF CELEBRATING THE MAHATMA

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INDIRECT TAX

LAWS & PRACTICE (ITP)

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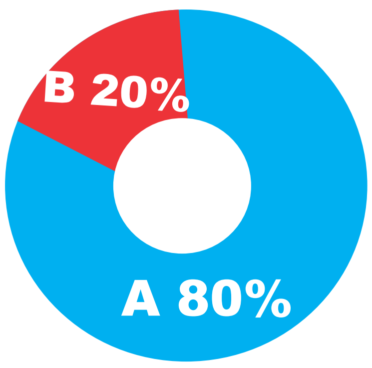
Your Preparation Quick Takes



Syllabus Structure

A Advanced Indirect Tax -
Laws & Practice **80%**

B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section, you will having an understanding of:

- Concept of Debit Note;
- Circumstances when Debit Note is issued;
- Parties issuing Debit Note;
- Purposes of issuing Debit Note;
- Contents of Debit Note under GST;
- Tax liability under a Debit Note;
- Debit Note and GST Returns;
- Signing of Debit Note.

'DEBIT NOTE' UNDER GST LAW

Introduction

- Goods and Services Tax is the newly introduced member of the Indian indirect tax family which was introduced on July 1, 2017. This new levy brought many desired changes and tightened the procedural formalities.

- Full recording and transparency has been one of the key features of this new levy and as such, it requires recording of relevant details in different documents. One of the important documents that flow between the supplier of goods/ services and the recipient happens to be the 'debit note'.

Concept of Debit Note

- Debit note is a document that is issued by the supplier/receiver of goods and services for adjusting amounts or revision/s in the already issued invoice. To be specific, this document comes into the picture when there is any erroneous transaction. Any error that creeps into any invoice are revised with the help of this note.

- The provisions regarding Debit Notes are covered u/s 2(38), 34(3) and 34(4) of the Central Goods and Services Tax Act, 2017.

- Sec. 2(38) provides that debit note means a document issued by a registered person under Sec. 34(3).

- According to Sec. 34(3), when a tax invoice has been issued for supply of any goods or services or both, and the taxable value or tax charged in that tax invoice is found to be less than the taxable value or tax payable in respect of such supply, the registered person, who has supplied such goods or services or both, shall issue to the recipient a debit note containing the prescribed particulars.

- As per the GST law, every supplier of goods or services or both is compulsorily required to issue a tax invoice. However, during the course of trade or commerce after the invoice has been issued there could be situations like:

  - Supplier has declared (erroneously) a value in the invoice which happens to be less than the actual value of goods or services or both.
  - Tax charged by the supplier in that tax invoice is less than the tax payable with respect to such supply.
  - The quantity received by the recipient is more than what has been declared in the tax invoice.
  - Any other similar reasons.

In order to regularize these kinds of situations the supplier is allowed to issue a document referred to as the Debit Note to the recipient. These debit notes also includes supplementary invoice.

- This document is so called as it is used to reflect that a debit has been effected to the account of the other party. Thus, it simply happens to be a simple document that serves the purpose of an accounting adjustment.

Parties issuing Debit Note

- Debit note is commonly issued by the supplier of the goods or services or both, to the recipient.

- But, it is to be noted that debit note can also be raised by a recipient goods or services or both, to the supplier thereof when the goods received are returned, damaged in transit, taxable value shown in the invoice is more than the actual or tax charged is more than the actual.

NB: However, under GST, debit note furnished by a supplier only will be considered for revision in the values of an invoice.

Purposes of issuing Debit Note

Debit note is issued by the supplier of the goods or services or both, to the recipient for the following purposes:

- **For increasing the taxable value of supply**: When subsequent to the issue of tax invoice the supplier is required to increase the taxable value of a supply; and

- **For increasing the GST charged in the invoice**: When subsequent to the issue of tax invoice the supplier comes to know that tax charged in that tax invoice is less than the tax payable with respect to such supply.

- **For making adjustment of excess quantity received by recipient**: When the quantity received by the recipient is more than what has been declared in the tax invoice.

Contents of Debit Note

Under the Indian GST law, there does not exist any prescribed format for a debit note. Rule 54 of CGST Rules 2017 provides that a Debit Note must contain the following particulars:

- Name, Address and GSTIN of the supplier;
- Nature of the document;
- A Consecutive Serial Number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters hyphen or dash and slash symbolized as "-" and "/" respectively, and any combination thereof, unique for a financial year;
- Date of issue of the debit note;
- Name, Address and GSTIN of the recipient or UIN of the recipient, if such recipient is registered;
- Name and Address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is un-registered;
- serial number and date of the corresponding tax invoice or, as the case may be, bill of supply;
- Value of taxable supply of goods or services, rate of tax and the amount of tax debited to the recipient; and
- Signature or Digital Signature of the supplier or his authorized representative.

Tax Liability under a Debit Note

- It can be looked upon as a document specifying future liability and having commercial implications.
- The issuance of a debit note or a supplementary invoice creates additional tax liability.
- The treatment of a debit note or a supplementary invoice would be identical to the treatment of a tax invoice as far as returns and payment are concerned.

Debit Note and GST Returns

- The newly introduced GST takes care of all the changes made to any transaction. Since debit notes happen to cause material change(s) to an invoice, they have to be reported separately in the GST returns. Debit notes are explained under Sec. 2(38) of the GST law.

- Details of debit notes issued should be furnished in Form GSTR-1 for the month in which the debit note is issued. These details will be made available to the recipient in Form GSTR-2A, post which the recipient has to accept the details and submit in Form GSTR-2.

Signing of Debit Note under GST law

- The invoice is required to be signed by the registered person or an authorised representative of such registered person.

- Moreover, such an invoice can be signed either physically or digitally (via Digital Signature Certificate).

Vol: 4, No.: 3.
March 2019, Issue

YEARS OF CELEBRATING THE MAHATMA

GROUP: 4, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

CMA (Dr.) Sudipti Banerjea
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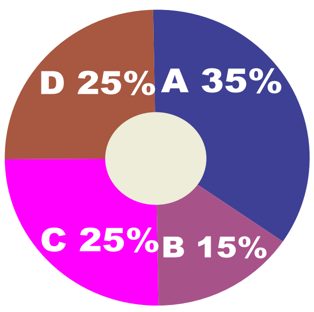
sudiptiban@rediffmail.com

Your Preparation Quick Takes



Syllabus Structure

A Cost Audit **35%**
B Management Audit **15%**
C Internal Audit, Operational Audit and other related issues **25%**
D Case Study on Performance Analysis **25%**

Learning Objectives:

To verify the correctness of the cost accounting records.
To find out whether the principles of cost accountancy have been fully and correctly applied in maintaining cost records.
To search for the deficiencies in the cost record system of the company.
To attain efficiency in cost accounting systems and procedures

Cost & Management Audit

Basics of Management Audit

- The concept of Management Audit was developed by **T.G. Rose** as a logical system of evaluation of the quality of management.
- Management Audit is concerned with the evaluation of managerial effectiveness in controlling all the activities of an organisation in the accomplishment of the organisational objectives.

Management Audit mainlydeals with the following:

1. the organisational objectives,
2. the policies and procedures in terms of the organisational objectives, and
3. adequacy of the organisational performance in terms of its objectives, policies and procedures.

Management Audit is an **objective** and **independent appraisal** of the effectiveness of the managerial and effectiveness of the corporate structure in the process of achievement of the organisational objectives and policies. Its aim is to identify the existing and potential managerial weaknesses within the organisation and to recommend the ways to rectify those weaknesses. (adapted from the definition of the **CIMA**).

Management Audit is the systematic and dispassionate examination, analysis and appraisal of the management's overall performance. It is a form of appraisal of the total performance of the management by means of an objective and comprehensive examination of the organisation structure, its components (such as departments), its plans/policies, processes/operations and controls, and its use of physical facilities and human resources.

Management Audit is carried out to –

1. appraise the managerial performance at all the levels,
2. identify the decisions/activities which are not in conformity with the organisational objectives,
3. ascertain that the organisational objectives are properly understood at all levels,
4. ascertain that control mechanisms at different levels are adequate and effective for accomplishment of the managerial objectives and operational plans,
5. evaluate the objectives to meet the plans, and
6. review the organisational structure.

The main objectives of Management Audit are as follows:

1. to ensure optimum utilisation of all the human and non-human resources employed,
2. to highlight the effectiveness of the objectives/ policies/ procedures,
3. to suggest improvements in the operational methods,
4. to highlight the weak links in organisational structure and in the internal control systems and to suggest necessary improvements,
5. to help management by suggesting organisational health indicators and help management prevent and/or cure sickness, and
6. to anticipate problems and suggest timely remedial measures to solve those.

Benefits of Management Audit

1. It helps the management to define the organisational objectives and in framing the basic policies.
2. In pursuance of the organisational objectives, it helps in preparing a viable and achievable plan.
3. It helps in setting up the organisational framework to implement the plans.
4. It assists in designing the systems and the procedures for smooth operation of the organisation.
5. It helps in designing and reviewing the organisational MIS for decision-making to help coordinate and control operations.
6. It assists in SWOT Analysis of the organisation so as to make the organisation healthier.
7. In a developing country like India, it has helped the government to identifying improper or wasteful use of funds, check extravagant organisation practices and curb ineffective use of physical resources through the functioning of the CAG, Public Accounts Committee and Parliamentary Committee on Public Undertakings.
8. Indian financial institutions and Board for Industrial Finance and Reconstruction (BIFR) have found it useful to monitor the sick industrial units and their rehabilitation.
9. It has helped the Indian Railways to improve in terms of resource mobilisation, reduction of cost operational costs and conservation of scarce resources.
10. It can help in SCBA of the public projects like dams, power houses, national highways, etc.
11. It is essential whenever a unit is planned to be taken over or is proposed to be amalgamated or merged with another unit.
12. Increase in professionalisation of management, separation of ownership from management, and wide distribution of stockholders, and increase in industrial competition and sickness will sooner or later make Management Audit compulsory just like financial audit.

Scope of Management Audit

- Its scope is decided by each organisation according to its own needs and the scope has no limit. It generally covers all the activities of an organisation and all the resources deployed by it.
- In Management Audit,accountability is a fundamental criterion.

The scope of Management Audit encompasses the following:

1. achievement or otherwise of the organisational objectives,
2. image of the organisation vis-a-vis its customers, general public in its particular industrial/commercial field,
3. Effective utilisation of the organisational resources,
4. the rate of return on investors' capital – poor/adequate/above average,
5. relationship of the organisation with its own shareholders and other interested parties,
6. employee relations,
7. the goals and the effectiveness of management at various levels – top/ middle/operational, and
8. Controls relating to production, marketing, finance and other functional areas of the organisation.

Uses of Management Audit

1. It synthesises the accounting, economic and other data required by the management in developing the basic policy framework.
2. It assists in developing and reviewing the planning system.
3. It makes substantial contribution to the system of goal-setting in the organisation.
4. It ensures that the management is getting the relevant information for decision-making.
5. It ensures that the management effectively uses the information received.
6. It aids in the design and maintenance of an appropriate authority structure.
7. It helps improving the information system to expedite flow of information among the responsibility centres.
8. It contributes substantially towards improving the entire communication system.
9. It helps management focus on the key functions/operations in the surplus-generation process.
10. It helps management establish better criteria for measuring results.
11. It helps management avoid wasteful and extravagant use of resources.

GROUP: 4, PAPER: 20

STRATEGIC

PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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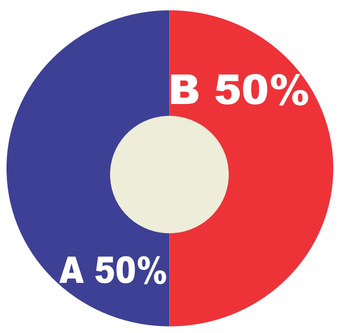
Your Preparation Quick Takes



Syllabus Structure

A Strategic Performance Management **50%**

B Business Valuation **50%**

Learning objectives:

After studying this section on Strategic Performance Management and Business Valuation, you will be able to:

- understand the coupon rate of bond
- get an idea regarding current yield of bond
- realize yield to maturity of bond
- know yield to call of bond

Strategic Performance Management and Business Valuation

Bond Return

Bond return can be calculated and expressed in different ways. You should understand the meaning of each of the following expression:

Coupon rate

Coupon rate is the nominal rate of interest fixed and printed on the bond certificate. It is calculated on the face value of the bond.

Current Yield

The current yield is the annual interest payment on a bond divided by the bond's current price / market price. It can be expressed as follows:

Current Yield = $(I / B_0) \times 100$

Where, I is the annual coupon interest and B_0 is the current price of the bond.

Yield to maturity (YTM)

Yield to maturity is the rate of return that investors expect to earn if they buy a bond at its market price and hold it until maturity. YTM is the most widely used bond valuation measure. Unlike the current yield, YTM considers not only the coupon income but also any capital gain or loss that the investor will realize by holding the bond to maturity.

YTM is the rate of interest that makes the present value of the bond's cash inflows exactly equal to the cash outflow for purchasing bond. Mathematically, YTM is the rate of interest, i, such that

$$B_0 = \sum_{t=1}^{T} \frac{I_t}{(1+i)^t} + \frac{M}{(1+i)^T}$$

Where, B_0 = Current market price of the bond,

I_t (t = 1, 2,...,T) = cash outflows from the bond throughout the holding period,

M = Maturity value,

T = number of years left to maturity.

Through a process of trial and error the value of YTM that equates the two sides of the equation may be determined.

Yield to Call (YTC)

Yield to Call (YTC) is the rate of return earned on a bond if it is called before its maturity date. The YTC is the interest rate which makes the present value of 'cash flows to call' (i.e., interest and call price of the bond) equal to the bond's current market price or the cost of purchase of the bond.

The procedure for calculating he YTC is the same as for the YTM. Mathematically the YTC is the value of i in the following equation:

$$B_0 = \sum_{t=1}^{n} \frac{I_t}{(1+i)^t} + \frac{CP}{(1+i)^n}$$

where, I_t is the coupon payment, CP is the appropriate bond price of the bond, n is the number of years until the assumed call date and Bo is the current market price of the bond.

Illustration

X Ltd has a 10% debenture with a face value of Rs 100 that matures at par in 10 years. The debenture is callable in five years at Rs 114. It currently sells for Rs105. Calculate each of the following for this debenture:

i) Current Yield
ii) Yield to Maturity and
iii) Yield to Call

Solution:

i) We know that

Current yield = $(I / B_0) \times 100$ (Where I is the annual coupon interest and B_0 is the current price of the bond.)

= (Rs 10 / Rs 105) x 100
= 9.52%

ii) The YTM is that rate of interest (i) such that

$$105 = \sum_{t=1}^{10} \frac{10}{(1+i)^{10}} + \frac{10}{(1+i)^{10}}$$

Let i be 9%

At i = 9%

RHS=Rs10 x Present value annuity factor (10years, 9%)+ 100 x Present value factor (10years, 9%)

= (Rs 10 x 6.418) + (100 x 0.422)
= 106.32
LHS = 105
Since LHS ≠ RHS, i ≠ 9%
Let, i be 10%
At i = 10%

RHS = Rs10 x Present value annuity factor (10 years, 10%)+ 100 x Present value factor (10years, 10%)
= (Rs 10 x 6.6145) + (100 x 0.386)
= 100.05
LHS = 105
Since LHS ≠ RHS, i ≠ 10%

Hence, YTM lies between 9% and 10%. It can be estimated by using interpolation as shown below:

$$\frac{i - 9}{10 - 9} = \frac{105 - 106.38}{100.05 - 106.38}$$

⇨ i - 9 = (-1.38 / -6.33)
⇨ i = 9 + 0.218
⇨ i = 9.22%

So, YTM is 9.22%

iii) YTC is the value of i in the following equation:

$$105 = \sum_{t=1}^{5} \frac{10}{(1+i)^5} + \frac{114}{(1+i)^5}$$

Let, i be 10 %
At 10%, RHS = (Rs 10 x 3.791) + (Rs 114 x 0.621) = 108.704
LHS = 105
Since RHS ≠ LHS, i ≠ 10%
Let, i be12%
At 12% , RHS = (Rs10 x 3.605) + (Rs114 x 0.567) = 100.688
LHS = 105
Since RHS ≠ LHS, i ≠ 12%
Hence, YTC lies between 10% and 12%. It can be estimated using interpolation as shown below:

$$\frac{i - 10}{12 - 10} + \frac{105 - 108.704}{100.688 - 108.704}$$

⇨ (i - 10) / 2 = (-3.704 / -8.016)
⇨ i - 10 = 2 x 0.462
⇨ i = 10 + 0.942
⇨ i = 10.92%

So, YTC is 10.92%

Willpower lays the ladder to Success

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01.00 Where there is a WILL

Here goes an interesting Chinese story. Long, long ago, in China, there lived a big businessman whose business was to sell combs. Now that he was becoming old and about to retire, he wanted to place the business into wise and able hands. So, he called forth his three sons and instructed them, that their assignment was to sell combs in the Buddhist monastery.

Where there is a WILL, there is a way

The sons were shocked and confused because the monks in the monastery were bald and they never grew any hair. Anyhow, the three sons went about the job that was assigned to them.

After two days, the first son reported he had sold two combs. When the father asked how, he replied, that he instructed the monks that the comb would be a valuable tool for scratching their backs in case of itching.

The second son appeared later and told that he had sold ten combs by advising the monks that the combs would help their visitors and pilgrims to comb their hair before entering the monastery, as their hair might have ruffled during the journey to the monastery.

Then the third son came out with a surprising sales figure of a thousand Combs. The father filled with happiness and anxiety asked him how he had achieved such a feat. The son replied that he gave the monks an idea.

The idea was that if some of the teachings of Buddha were to be printed/embossed on the comb and given as a take away gift to the visitors and pilgrims; they will remember the teachings of Buddha on a daily basis while combing their hair. This creative idea struck the deal.

This simple story attests the age old saying that, "Where there is a WILL, there is a way". The story also demonstrates that will power ignites creativity. And, es, it is the 'Will' that can make or unmake the things for you.

02.00 Willpower is the key to Success

Will is always driven by 'Willpower'. Willpower refers to an energetic determination that ends up in synergetic outcome. In the words of Dan Millman "Willpower is the key to success. Successful people strive no matter what they feel by applying their will to overcome apathy, doubt or fear."

Willpower is the key to success. Successful people strive no matter what they feel by applying their will to overcome apathy, doubt or fear.

Daniel Jay Millman is an American author and lecturer in the personal development field. During his senior year in high school, Dan Millman won the United States Gymnastics Federation (USGF) national title on the trampoline, and while a freshman at University of California Berkeley, he won the 1964 Trampoline World Championship in London and earned All-American honors and won an NCAA Championship in vaulting. In 1966 he won the USGF championship in floor exercise and represented the United States tes in the 1966 Maccabiah Games, winning four Gold Medals in Gymnastics.

In September of 1966, just prior to his senior year at U.C. Berkeley, Millman's motorcycle collided with a car. He suffered a shattered right femur, requiring surgical repair and bone marrow transplant with a steel nail inserted in his femur (which was removed a year later after the leg was healed). Millman actively pursued rehabilitation and was able to return to gymnastics as co-captain of his team which won the 1968 NCAA Gymnastics Championships in Tucson, Arizona. He was the last man to perform for U.C. on the high bar, and had a best-ever routine and perfect landing that clinched the team title.

In 1968 he was voted Senior U.C. Berkeley Athlete of the Year, and graduated with a B.A. degree in Psychology. Later, Millman served as director of gymnastics at Stanford University, where he coached U.S. Olympian Steve Hug and brought the Stanford team to national prominence. Millman has authored a number of books which together have been published in 29 languages.

We do need a strong willpower to stand against the onslaught of many negative forces which are always waiting to destabilize us from our balanced mentality. The Political leaders, the freedom fighters, business tycoons, poets, scientists, religious leaders and many such people who have understood the human mind of the man have achieved their success in great degree of advancements because they had a strong willpower which took them to their level of success with unique places in the history of mankind.

Millman's life story is an emulative example that reflects the positive impact of the willpower in steering towards a laudable and focused goal.

03.00 Where the willingness is great,

A quote by Niccolo Machiavelli states, "Where the willingness is great, the difficulties cannot be great." Niccolo Machiavelli (1469 - 1527) was an Italian diplomat, politician, historian, philosopher, humanist, writer, playwright and poet of the Renaissance period. He has often been called the father of modern political science.

> Where the willingness is great, the difficulties cannot be great.

The first part of the quote is the essence of enthusiasm. If you are ready, willing and able, nothing will be able to withstand your efforts for very long. Your willingness becomes the core of the effort, allowing you to remain motivated and to push aside the little things that cause less willing people to give up.

The second part of the quote is just as straight forward. Those things that seem to be too difficult for those who lack enthusiasm are not to difficult for you. Nothing is too big, nothing is overwhelming, you just keep at it until you get it done.

The following story is usually told as an example of optimism, but it is also about the enthusiasm, both to believe and to work hard to get the desired result.

A little girl, on her birthday, was hoping for a pony. Her cruel step-mother instead filled her room with horse manure. The step-mother expected the little girl to break into tears, but was astonished at both the size of the smile and enthusiasm with which she started checking around the room, calling for the pony. On seeing her astonished step-mother's face, she stated "With all this poop, there's got to be a pony around here somewhere. Thanks!" And with that, she returned to her search.

That is enthusiasm. Enthusiasm allows you to bear great burdens, suffer great indignities and do what others won't. This allows you to achieve what others can only dream of.

The world is full of tasks that are not among your favorites. Sometimes it can be hard to maintain, or even achieve, any significant level of enthusiasm. By knowing yourself, you can try to find little things to help you stay motivated and achieve great things with small bits of enthusiasm sprinkled throughout the project.

04.00 Inspiring Quotes

It is aptly said that willpower is the ability to control oneself and determine one's actions, displaying self-control within and without. Here are a few inspiring quotes:

1. "Willpower is like a muscle: The more you train it. The stronger it gets."
2. "People don't just find the strength and the willpower they need, they create it."
3. "The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather a lack of will."
4. "Willpower is not genetic. It requires the will to resist, and the power of a resolved mind."
5. "Strength does not come from physical capacity. It comes from an indomitable will." Mahatma Gandhi

05.00 Quick Take

Unwind your willpower; and climb the ladder of success.

Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
11th June, 2019 (Tuesday)	Corporate Laws & Compliance (Paper 13) (Group - III)
12th June, 2019 (Wednesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
13th June, 2019 (Thursday)	Strategic Financial Management (Paper 14) (Group - III)
14th June, 2019 (Friday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
15th June, 2019 (Saturday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
16th June, 2019 (Sunday)	Cost & Management Audit (Paper 19) (Group -IV)
17th June, 2019 (Monday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
18th June, 2019 (Tuesday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

Practical support, information and advice to help you get the most out of your studies.

START

01 Read Study Notes
MTPs
E-Bulletin
Live Webinar

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSION

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!

We have noted your queries and your requests will definitely be carried out. Further, requesting you to go through the current edition of the bulletin. All the areas will be covered gradually. Expecting your responses further to serve you better as we believe that there is no end of excellence! One of the mails received is acknowledged below.

Please put your opinions so that we can make your e-bulletin everything that you want it to be.

Updation of E-Mail Address/Mobile:

Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Student may update their E-Mail id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.

Send your Feedback to:
e-mail: studies.ebulletin@icmai.in
website: http://www.icmai.in

Message from Directorate of Studies

Dear Students,

Greetings from the D.O.S.,

Congratulation to all the successful examiners who have pass in December, 2018 terms of examination Those, could not clear in please remind that, failure is a key of success so try hard. We from the Directorate of Studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the **publications of monthly E-bulletins**. Other than this we are trying to help you through **New Mock Test Papers (MTPs), New Work book**, and we are conducting **New Webinar sessions (live)** and where your active participation is amazing. Before stepping in to the examination hall, please go through the **PPTs on 'Achieve your GOAL'**; uploaded by the Directorate of Studies and which will help you to know about certain Do's and Dont's in the examination.

You know that the nation is celebrating 150th birth anniversary of the father of the nation M.K.Gandhi. One of his inspirational message towards the students were:

" Continue to grow and evolve",

Let us observe his memory by following his message.

Certain general guidelines are listed below and which will help you in preparing yourselves:

- Conceptual understanding & Overall understanding of the subject should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms is required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Please refer the links mentioned below :

For Mock Test Papers (MTP) : **http://icmai.in/studentswebsite/mtp2016_j18_fnd.php**

For Revision Test Papers (RTP) : **https://icmai.in/studentswebsite/rtp2016_d18.php**

For PPT on "Achieve your GOAL : **http://icmai.in/studentswebsite**

For Work Book Link : **https://icmai.in/studentswebsite/Workbook-Syl-2016-Inter.php**

Live Webinar Link : **http://icmai.in/icmai/news/889.php**

Ebulletin Link : **https://icmai.in/studentswebsite/E-Bulletin.php**

We are sure that you will be motivated after looking into the placement news of our students' appeared in the Times of India, newspaper. Many of our students' were placed in reputed companies, which may encourage you to accomplish the course quickly and to be placed in good companies.

GOOD LUCK & Best wishes as always.

Be Prepared and Get Success;

FOLLOW US ON

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA