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CMA Student E - Bulletin

FINAL

150 YEARS OF CELEBRATING THE MAHATMA

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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 Biswarup Basu

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

CMA BISWARUP BASU
Chairman, T & EF Committee
Directorate of Studies

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MESSAGE FROM THE CHAIRMAN

Dear Students,

Merry Christmas!!!

"Be the change that you wish to see in the World"- M.K. Gandhi.

Education plays a vital role in everyone's life. Better education gives you the power to change your life. It changes your mindset completely and develops confidence that somehow helps you in building your personality. It facilitates your learning, increases your knowledge and enriches your skill.

In this competitive world, it is a must for all to have a good education. Proper education makes you strong mentally, socially and intellectually by increasing your knowledge level, technical skills and good position in the job. Towards this end your Institute is encouraging you always and please try to grab the opportunities offered by the Institute.

"Real education enhances the dignity of a human being and increases his or her self-respect. If only the real sense of education could be realized by each individual and carried forward in every field of human activity, the world will be so much a better place to live in.''- APJ Abdul Kalam.

December, 2019 term of examinations have just finished and I am pretty sure that your hard work will be rewarded. Those could not seat for the examination and thinking to appear for the forthcoming June, 2020 term, must get prepared seriously and towards this end the Directorate of Studies (D.O.S.) is trying to enrich your knowledge through the continuous up-dation of study materials, work book, Mock Test Papers (MTP), monthly publication of students' e-bulletins etc.

The Directorate of Studies is also conducting live webinar sessions and those who are not been able to attend those sessions, please see the recorded versions for their knowledge up-dation. I am really thankful to all those academicians and professionals who are regularly updating your knowledge bank by extending their suggestions and input towards your all-round development. Please refer all those publications which will help in your preparation.

Best wishes to you all,

CMA Biswarup Basu

Vice President & Chairman, Training & Education Facilities and Placement Committee

Be a CMA, be a Proud Indian

150 YEARS OF CELEBRATING THE MAHATMA

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

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YEARS OF CELEBRATING THE MAHATMA

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

CONTENTS

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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.

YEARS OF CELEBRATING THE MAHATMA

GROUP: 3, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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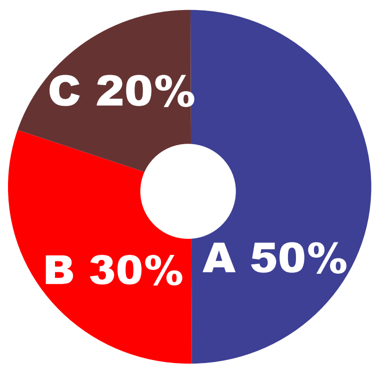
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

- Students will demonstrate their knowledge of the fundamental and technical concepts of accounting.
- Students will reveal critical-thinking and problem-solving skills.
- Students will exhibit the ability to recognize when change is appropriate, to adapt to change as it occurs, and to take the lead in creating change.
- Students will display a sense of responsibility and a capacity for the subject after learning.

Capital market

Market where capital instruments are sold and bought, any security instrument having the right to own a company is capital market or has some connection with the company's long term finance is a capital market instrument

Primary market: sale/ allotment of shares from the company to any entity: IPO/ FPO

Secondary market: sale of shares from one person to another person: instruments are already created

Off market trading: sale of shares other than through stock market

Capital market intermediary: the entity which facil;aytes the transactions in capital market. i. e, stock exchange, broker, under writer, share transfer agent, debenture trustee, merchant banker etc.

a) **SEBI:** created by SEBI Act in May 1992 to regulate capital market. Has various divisions like primary market, secondary market, stock exchanges, operations etc. Board consists of full time and part time members under is under ministry of Finance. Headquartered in Mumbai, has office in all regions in metro cities. Issues regulations and orders from time to time. Decision of SEBI can be appealed to Sebi Appellate Tribunal (SAT)

1.0 <u>CAPITAL MARKET TERMINOLOGIES</u>

1.1 <u>Contract:</u>

'Contract' means a contract for or relating to the purchase or sale of securities.

1.2 <u>Securities:</u>

'Securities' includes the following:

- Shares, scrip, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in any incorporated company or other body corporate.
- Derivative.
- Government securities.
- Rights or interests in securities.
- Such other instruments as defined in clause (zg) of section 2 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

1.3 <u>Government security:</u>

'Government security' means a security created and issued, whether before or after the commencement of this Act, by the Central Govt. or a

State Govt. for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debts Act, 1944.

1.4 Derivative:

'Derivative' includes-

- A security derived from a debt instrument, share, loan, whether secured or not, risk instrument or contract for differences or any other form of security;
- A contract which derives its value from the prices, or index of prices, of underlying securities.

1.5 Beneficial owner:

1.6 "Beneficial owner" means a person whose name is recorded as such with a depository.

1.7 Depository:
"Depository" means a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration by SEBI Act, 1992.with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exception; (b) dematerializing the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form.

Process:
The depository system involves:

(a) Conversion of securities from physical mode to electronic mode.
(b) Settlement of trades in electronic segment.
(c) Electronic transfer of ownership.
(d) Electronic custody of securities.
(e) All the securities are identical in all respects and are fungible.
(f) The system is not mandatory for the owner of the securities but it is mandatory for the companies.

1.8 Merchant Banker:
A financial intermediary who can manage issue of shares, make valuation of shares and is involved in various formalities of issue and transfer of securities.

1.9 Broker – a person who is agent of either buyer or seller. In case of market transaction, brokers should be registered with SEBI.broker can appoint sub brokers.

1.10 Stock Exchange – a company which provides a platform for buying and selling of securities through brokers and is called market transaction. Only CG authorized exchanges can operate. The brokers/ sub brokers can only do the trading job.

1.11 Underwriter – any person/organization who agrees to subscribe a portion of the securities, being issued to public, in case they are not subscribed by investors in public issue. They are paid commission by the company for taking this risk.

1.12 Share Transfer Agents – organizations who keep account of share transfer for other companies.

1.13 Insider Trading – passing of information by any insider of a company. Insider means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to the unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information.

Price sensitive information' means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of the securities of the company.

1.14 **Book Building Process** – Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from Qualified Institutional Buyers (QIB).

1.15 **Promoter** – Person/persons controlling the plan/programme of the company pursuant to which public issue is made. Directors in professional capacity are not promoters.

1.16 **Promoters' Group** – (1) Promoter's relative. (2) In case of a company – (a) Subsidiary/holding company. (b) Any company whose promoter holds 10% or more of the equity or which holds 10% or more of the promoter.

1.17 **Red Herring Prospectus** – This is an indicative prospectus without any details of price and number of shares or amount of issue. The floor price or price band is declared one day prior to the opening the issue. After the price is obtained through bidding the offer document is filed as prospectus.

1.18 **Abridged Prospectus** –
- Salient features of prospectus and accompanied with a form.
- Letter of offer – documents for rights issue filed Stock Exchange.
- Abridged Letter of Offer – abridged form of the above, compulsorily to be sent to each shareholder. Details to be given on request.

2.0 SEBI Regulations (Issue of Capital and Disclosure Requirements).

2.1 **Entry Norms (IPO or FPO)**
At least 25 per cent of each class or kind of securities issued by a company is offered to the public for subscription through advertisement in newspapers. The limit of 25% can be relaxed to 10% if following conditions are satisfied:

a) Minimum 20 lakh securities (excluding reservations, firm allotment and promoters' contribution) are offered to the public;
b) The size of the offer to the public, i.e. the offer price multiplied by the number of securities offered to the public was minimum Rs.100 crores; and
c) The issue was made only through book building method with allocation of 60 per cent of the issue size to the qualified institutional buyers as specified by the Securities and Exchange Board of India;

Recognized stock exchange may relax any of the conditions with the previous approval of the SEBI, in respect of a Government company.

2.2 An unlisted company may make an initial public offering (IPO) of equity shares or any other security, which may be converted into or exchanged with equity shares at a later date, only if it meets all the following conditions:

(i) The company has net tangible assets of at least 3 crores in each of the preceding 3 full years (of 12 months each), of which not more than 50% is held in monetary assets:

Provided that if more than 50% of the net tangible assets are held in monetary assets, the company has made firm commitments to deploy such excess monetary assets in its business/project;

(ii) The company has a track record of distributable profits in terms of for at least (3) out of immediately preceding five (5) years.

(iii) The company has a net worth of at least 1 crore in each of the preceding 3 full years (of 12 months each)

(iv) In case the company has changed its name within the last one year, at least 50% of the revenue for the preceding 1 full year is earned by the company from the activity suggested by the new name; and

(v) The aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (i.e., offer through offer document + firm allotment + promoters' contribution through the offer document), does not exceed five (5) times its pre-issue net worth as per the audited balance sheet of the last financial year.)

(vi) Eligibility – Unlisted company whose commercial operation of less than two years and the post issue capital shall not exceed Rs.5 crore and not less than Rs.3 crore.

vii) Appoint market maker to the issue on all stock exchanges where the securities are proposed to be listed.

viii) The unlisted companies whose capital after the proposed issue of securities is less than Rs.3 crore shall be eligible to be listed only on the Over the Counter Exchange of India.

2.3 <u>Pricing by Companies Issuing Securities</u>

An unlisted company eligible to make a public issue and desirous of getting its securities listed on a recognized stock exchange may freely price its equity shares.

2.4 <u>Price Band:</u>

Issuer company can mention a price band of 20% in the offer document filed with the Board and actual price can be determined at a later date before filing of the offer document with the ROCs.

2.5 <u>Promoters' Contribution and Lock-in Requirements.</u>

In a public issue by an unlisted company, the promoters shall contribute not less than 20% of the post issue capital.

Promoters shall bring in the full amount of promoters' contribution including premium at least one day prior to the issue opening date.

Minimum Promoters' contribution Lock-in period: 3 years.

Excess Promoters' contribution:
Lock in period: 1 year.

2.6 Book Building Process: Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from subsidiaries. RHP do not contain price. It contains either the floor price or a price band.

2.7 Pre- issue Obligations:

1. The lead merchant banker shall exercise due diligence.

2. Documents to be submitted along with the offer document by the Lead Manager:
    - Memorandum of Understanding.
    - *Inter se* allocation of responsibilities
    - Due diligence certificate.
    - Undertaking.
    - List of Promoters' group and other details.
    - Appointment of intermediaries like merchant bankers, co-managers and other intermediaries.

2.8 Public Issue Steps:

- The lead merchant banker's minimum underwriting obligation: 5% of the total underwriting commitment or Rs.25 lakhs whichever is less.

- Offer document to be made Public.

- Pre-issue advertisement.

- IPO grading: By rating agency approved by SEBI.

- Despatch of issue material.

- No complaints certificate.

- Mandatory collection centers of applications in major cities.

- Authorized collection agents.

- Appointment of compliance officers: To be notified in the advertisement who is responsible for the compliance.

- Agreement with depositories: For data access of shareholders

2.9 Reservation for Employees:
- As per Rule 19(2)b of SC(R) rules, 1957 the reservation for employees cannot exceed 10% of the total issue amount.

The main object of the SEBI Act are as follows:

(a) Protect the interests of the investors in securities.
(b) Promoting orderly and healthy growth of the securities market.
(c) Regulation of the securities market and other incidental matters.
(d) Promoting the fair dealings by the issuer of securities and raising of funds at a relatively lower cost.
(e) Monitoring the activities of stock exchanges, mutual funds and merchant bankers etc.

3.0 Powers of SEBI

(1) Specific powers like regulating the business of stock exchanges, registering and regulating the functions of stock brokers, share transfer agents, bankers, registrars,

trustees, underwriters, portfolio managers etc.

(2) Power to make inspection.

(3) Powers of civil court exercisable by SEBI.

(4) Power to issue direction.

(5) Power to regulate and prohibit the issue of prospectus.

(6) Power to seize documents like books and papers.

4.0 Guidelines on initial public issue through the stock exchange

1) Agreement with the stock exchange.
2) Appointment of brokers.
3) Appointment of Registrar to the issue.
4) Listing.
5) Responsibility of Lead Managers.
6) Mode of operation.
7) Demat

5.0 Book Building:

SEBI Guidelines define Book Building as a process undertaken by which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document

6.0 SEBI (Substantial Acquisition of Shares)

On purchasing of shares from the market. for every 5%
Acquisition to inform to SE and The company.

GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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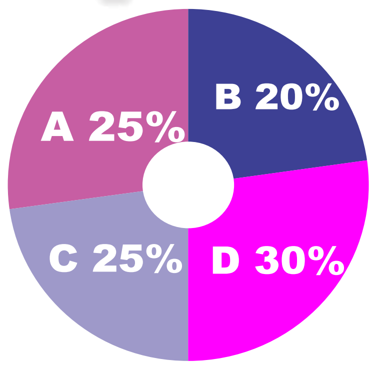
Your Preparation Quick Takes



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 on Strategic Financial Management, you will be able to:

- understand the advanced concepts of Financial Management
- develop and apply financial strategies

Study Note 1: Investment Decision, Project Planning and Control

Discounted Cash Flow Methods

One of the major limitations of ARR or Pay Back method of investment appraisal techniques is that they do not take into consideration time value of money. Time value of money refers to the phenomena that money received now and that received in a future period cannot have the same worth because of a number of factors including uncertainty involved in future events, opportunity costs, deferment of present consumption etc. Hence benefits or costs in whatever form (profit or cash flow) belonging to two different time periods are never additive unless they are converted into similar parlance (either future value or present value). As a result, non-discounted cash flow methods like ARR and Payback Period may often mislead the decision maker.

This is why experts suggest time adjusted or discounted cash flow techniques which essentially require discounting all future benefits and costs before aggregating them to arrive at any conclusion.

1. Net Present Value Method:

Technically, NPV is defined as the excess of present value of cash inflows in any investment project over and above the present value of cash outflows in that project. In other words, NPV = PV of Cash Inflows – PV of Cash Outflows.

Symbolically, NPV = $\sum_{t=1}^{n}\frac{CI_t}{(1+K)^t}$ - $\sum_{t=1}^{n}\frac{CO_t}{(1+K)^t}$ where, CI_t = Cash inflow for the period t; CO_t = Cash Outflow for the period t and K = Appropriate discounting rate.

Thus, NPV basically signifies the profitability of the project in present value terms.

Following table summarizes the steps of calculating NPV.

Steps	Projects with Non-conventional Cash Flow Structure	Projects with Conventional Cash Flow Structure
1.	Determine the cash inflows and outflows associated with the project (CIand CO)	
2.	Identify the appropriate discounting rate (preferably the cost of capital)	
3.	Calculate the present value of all cash inflows i.e. $\sum_{t=1}^{n}\frac{CI_t}{(1+K)^t}$	
4.	Calculate the present value of all cash outflows i.e. $\sum_{t=1}^{n}\frac{CO_t}{(1+K)^t}$	Calculate the total cash outflow at the beginning of the project (CO_0 i.e. I_0)

5.	Determine NPV = Step 3 –Step 4
	i.e. NPV = $\sum_{t=1}^{n}\frac{CI_t}{(1+K)^t}$ - $\sum_{t=1}^{n}\frac{CO_t}{(1+K)^t}$ NPV = $\sum_{t=1}^{n}\frac{CI_t}{(1+K)^t}$ – I_0

- **Decision Rule:**

a) Single Project: Since, NPV basically denotes the time value adjusted profitability of a project, a project is accepted if its NPV is positive and rejected if the NPV is negative.
b) Mutually Exclusive Projects: In case of mutually exclusive projects (where one out of two or more projects is to be selected), the projects are first ranked based on their respective NPV and then the project with highest NPV is selected.

- **Some Typical Adjustments:**

a) Since, NPV is calculated based on discounted cash flow from a project, it is sensitive to the method of depreciation that is adopted by the organization. This is because depreciation is a non cash expenditure and is allowable in tax as deductible.

b) Sometimes scrap value can be realized from the fixed assets used in the projects (such as machinery). In such a case the amount of scrap value so realized should be considered as additional cash flow for the terminal period of the project.

c) Projects often require investment in working capital which is rolled over in the project over its lifetime and hence assume the character of a quasi-long-term investment. However, the investment in working capital is realized at the end of the project term. Thus, the investment in working capital should be added with the initial investment and the amount of working capital realized at the end should be added to the cash flow after tax of the terminal period.

d) As per the present tax law in India, when a business asset is sold the sale proceeds are deducted from the written down value of the concerned block of asset. Depending upon the situation whether the single asset constituted the block or it is only a part of it, there may arise short term capital gain or loss u/s 50(1) or 50(2). While the STCG will require the scrap value to be adjusted by the tax on such STCG, STCL may further complicate the situation. It will create tax shield for the future years when it is adjusted. Hence, the present value of such tax shield should also be added while calculating the NPV of the project. However, if the question paper is silent on this aspect, the students are advised to ignore taxation of STCG or STCL.

e) In any discounted cash flow technique, cash flow means cash flow after tax. If the problem has provided information regarding Earnings before Depreciation and Tax (EBDT) or Cash Flow before Tax (CFBT), the students need to calculate CFAT.

Illustration 1:

Q Ltd. is considering an investment proposal which will require an initial investment of Rs. 280000 in fixed facilities and an additional Rs. 40000 as working capital. The project is expected to generate cash flow before tax of Rs. 115000, Rs. 95000, Rs. 82000, Rs. 85000 and Rs. 90000 respectively over its five year lifetime. The estimated scrap value of the project is Rs. 25000. Tax rate applicable for the company is 40% and cost of capital is 10% p.a. Calculate the net present value of the project and advise the management on its acceptability.

Solution:

Calculation of NPV of the project

Year	CFBT	Depreciation	Taxable Profit	Tax	CFAT	PVIF @10%	PV
(1)	(2)	(3)	(4)=(2) – (3)	(5)= (4)×40%	(6)=(4)-(5)+(3)	(7)	(8) =(6) ×(7)
1	120000	51000	69000	27600	92400	0.909	83992
2	100000	51000	49000	19600	80400	0.826	66410
3	85000	51000	34000	13600	71400	0.751	53621
4	95000	51000	44000	17600	77400	0.683	52864
5	90000	51000	39000	15600	139400*	0.621	86567
						Total PV	343455
						Less. Initial Investment (280000+40000)	320000
						NPV	23455

* Rs. 139400 = CFAT Rs. 74400+Scrap Value Rs.25000+Working Capital Rs.40000
Since NPV is positive, the project is acceptable.

Illustration 2:

Y Ltd. is planning to undertake any one of the following three mutually exclusive projects. The information relevant for this purpose is given below.

Projects	Annual Cash Flow (Rs.)	Initial Investment (Rs.)	Project Duration (Years)
P	15000	80000	10
Q	20000	70000	8
R	22000	68000	9

If cost of capital is 12%, advise the management regarding the selection of the best project.

[Given, present value of an annuity of Re. 1.00 at a discount rate of 12%:

PVIFA (12%, 10 years) =5.65; PVIFA (12%, 8 years) = 4.97; PVIFA (12%, 9 years) = 5.33]

Solution:

Calculation for NPV and Ranking.

Projects	Annual Cash Flow (Rs.)	Initial Investment (Rs.)	Project Duration (Years)	PVIFA	Total PV	NPV	Rank
1	2	3	4	5	6	7	8
P	15000	56000	10	5.65	84750	28750	III
Q	20000	70000	8	4.97	99400	29400	I
R	22000	88000	9	5.33	117260	29260	II

Here project R with highest NPV gets rank I. Hence the company should select project R.

Limitations of NPV:

Though advocated widely, NPV suffers from some serious limitations.

a) While calculating NPV, use of the existing cost of capital is highly debatable as for financing future projects capital may be procured from other sources with cost of capital completely different from the current one. Thus, using the marginal cost of capital for the project could have been a better idea. However, it may be very difficult for a firm to determine the marginal cost of capital at times.

b) NPV is basically an absolute measure. Hence, in case of mutually exclusive projects, selecting a project based on the value of NPV may appear to be inappropriate when the projects significantly differ in terms of size (of investment) and lifespan (We shall take up these issues and suggest appropriate remedies later on in this section.)

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GROUP: 3, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISIONMAKING (SCMD)

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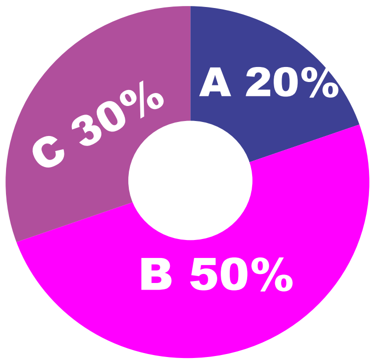
Your Preparation Quick Takes



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?

Snapshots

Here follow vital snapshots that would facilitate quick take preparation for the examination.

Life Cycle Cost (LCC): Life Cycle Cost may be stated as "The total cost throughout the life of an asset including planning, design, acquisition and support costs and any other costs directly attributable to owning or using the asset". LCC of any item represents costs of its acquisition, operation, maintenance and disposal.

Target Costing: Target Costing starts with the market determined price; then deducts the desired profit margin; and works back the target cost. Peter And that is how the formulation: "Target Cost = Target Price – Target Profit" in place of the traditional approach of "Cost + Profit = Selling Price".

Value Analysis (VA): Value Analysis is a scientific approach that ensures all the functions of a product or service are carried out at the minimum cost without compromising quality, reliability, performance and appearance. It is one of the important techniques of cost reduction and control.

Business Process Re-engineering (BPR): Business Process Re-engineering refers to the fundamental rethinking and redesign of business processes to achieve improvement in critical measures of performance such as costs, quality, efficiency, service, speed and customer satisfaction. It (BPR) is the practice of rethinking and redesigning the process to support an organization's mission and reduce costs.

Lean Accounting: Lean accounting is the application of lean principles to the accounting and associated functions within the enterprise. Lean Accounting facilitates the changes that are required to a company's accounting, control, measurement, and management processes to support lean manufacturing and lean thinking.

Throughput Accounting (TA): Throughput Accounting is variable-cost-accounting presentation based on the definition of throughput (sales minus material and component costs). Sometimes, it is referred to as super variable costing because only material costs are treated as variable. It is a management accounting technique used as a performance measure in the theory of constraints.

Key Performance Measures (KPMS): Key Performance Measures are the comprehensive tools that can be adopted by every enterprise to track its own performance from various stakeholders' perspectives. KPMs are the Key Monitors of Business Performance:

Cost Reduction: The term 'Cost Reduction' refers to the attempts to reduce the costs. Cost reduction may be defined as the real and permanent reduction in the unit costs of goods manufactured or services rendered without impairing their suitability for the use intended. The goal of cost reduction can be achieved either by reducing the cost per unit or by increasing the productivity or doing both at the same time. Thus, cost reduction holds the key for cost leadership.

Marginal Costing: Marginal Costing is the technique of presenting cost data wherein variable costs and fixed costs are shown separately for managerial decision-making. It is simply a method to find out the impact of changes in the volume of output on profit. Marginal costing technique has given birth to the concept of contribution wherein contribution is calculated as Sales revenue less variable cost (marginal cost). Contribution may be defined as the profit before the recovery of fixed costs. Managers adopt the technique of marginal costing for a sweeping number of multifaceted strategic and financial applications.

Differential Cost: Differential Cost is the change in the costs which results from the adoption of an alternative course of action. The alternative actions may arise due to change in sales volume, price, product mix (by increasing, reducing or stopping the production of certain items), or methods of production, sales, or sales promotion, or they may be due to 'make or buy' or 'take or refuse' decisions. When the change in costs occurs due to change in the activity from one level to another, differential cost is referred to as incremental cost or decremental cost.

Relevant Costs: Relevant Costs are costs appropriate to aiding the making of specific management decisions (CIMA). They are estimated future costs that differ among alternatives. Similarly, relevant revenues and expected future revenues differ among alternatives.

Transfer Pricing: Transfer price is the price that one segment (sub unit, department, division etc.,) of an organization charges for a product or services supplied to another segment of the same organization. Transfer prices are used when individual entities of a larger multi entity firm are treated and measured as separately run entities.

Standard Costing: Standard Costing is a Control technique that reports variances by comparing actual costs to pre-set standards thereby facilitating action through management by exception. Standard Cost is defined as a planned unit cost of a product, component or service. The control point, obviously, is 'Management by Exception through the process of Planning'. Broadly speaking, a standard cost for a product consists of two things, viz. a price standard and a quantity standard. Price standard refers to prices of inputs, viz. materials, wage rates for labour time, unit rates for machine hours, power and others whereas quantity standards relate to quantities of material, labour, machine hours, power units and other inputs.

Variance: Variance denotes the deviation between the standard proposition and the actual incidence. Revenue Variance is the difference between planned, budgeted or standard revenue vis-à-vis the actual revenue generated. Cost Variance is the difference between a planned, budgeted or standard cost vis-à-vis the actual cost.

Budget: A budget is a systematic method of allocating financial, physical, and human resources to achieve strategic goals. Companies develop budgets in order to monitor progress towards their goals, help control spending, and predict cash flow and profit. Even in small companies, a budget can provide a road map detailing where the business is, where it wants to go and how it can reach there.

Budgetary Control: Budgetary Control is the process that facilitates effective implementation of the budgets. The process allows continuous monitoring of actual results versus budget, either to secure by individual action the budget objectives or to provide a basis for budget revision. Budgetary control refers to how well managers utilize budgets to monitor and control costs and operations in a given budget period. In other words, budgetary control is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as is needed.

Zero Based Budgeting (ZBB): Zero-Based Budgeting is a method of budgeting that requires all costs to be specifically justified by the benefits expected. It is a method whereby every item of expenditure in the budget is fully justified with every modification. Zero based budgeting, also known as priority based budgeting, emerged in the late 1960s as an attempt to overcome the limitations of incremental budgeting.

Uniform costing: Uniform costing is the application and use of the same costing principles and procedures by different organizations under the same management or on a common understanding between members of an association. Its main features comprise uniform systems across the industry and generation of comparable reports.

Inter firm comparison: Inter firm comparison is a technique of evaluating the performances, efficiencies, deficiencies, costs and profits of similar nature of firms engaged in the same industry. It consists of exchange of information relating to production, sales, costs and their break up, prices and profits etc. amongst the participating firms. The basic purpose is to find out the points of improvement by taking appropriate measures to wipe out the weakness gradually over a period of time.

Activity Based Costing: CIMA defines Activity Based Costing as, 'cost attribution to cost units on the basis of benefit received from indirect activities e.g. ordering, setting up, and assuring quality.' One more definition of Activity Based Costing is, 'the collection of financial and operational performance information tracing the significant activities of the firm to product costs.' Activity Based Costing has been evolved with a view to overcome the limitations of traditional costing systems.

Just in time (JIT) Production: Just in time is a demand pull system of production, wherein actual orders provide a signal for when a product should be manufactured. Demand-pull enables a firm to produce only what is required, in the correct quantity and at the correct time. This means that stock levels of raw materials, components, work in progress and finished goods can be kept to a minimum. This requires a carefully planned scheduling and flow of resources through the production process.

Bench-marking: Benchmarking is the continuous process of measuring products, services or activities against the best levels of performance that may be found either inside or outside the organization. It is a process of comparing a firm's activities with best practices. The process involves establishment of benchmarks (targets or comparators), through the use of which the levels of performance of the organization is sought to be improved. Benchmarking is an enabler of Cost Reduction & Cost Control.

Quality Control: Quality Control refers to the process of control where the management tries to conform the quality of the product in accordance with the pre-determined standards and specifications. It is a systematic control of those variables that affect the excellence of the ultimate product. Thus, quality control is a technique of scientific management which has the object of improving industrial efficiency by concentrating on better standards of quality and on controls to ensure that these standards are always maintained.

Quality Costs: Quality costs are costs directly related to quality. They may be divided into two parts i.e. (i) Quality Control Costs comprising prevention costs and appraisal costs; and (ii) Quality Failure Costs comprising Internal failure costs and external failure costs. Quality training, system development for prevention & quality improvement are examples of prevention costs; Testing and inspection charges, package inspection, final product testing are appraisal costs; Cost of spoilage, retesting, down time due to defects in quality ate internal failure costs; Cost of field servicing, warranty repairs & replacements, lost sales are external failure costs.

PRAISE Analysis: PRAISE Analysis is a six step process of the 'Total Quality Management' where identification of improvement opportunities and implementation of quality improvement process takes place. The six steps consist of Problem identification, Ranking, Analysis, Innovation, Solution and evaluation. These steps are represented by acronym PRAISE.

Pareto Analysis: Pareto Analysis is a rule that recommends focus on the most important aspects of the decision making in order to simplify the process of decision making. It is based on the 80:20 rule phenomenon first observed by Vilfredo Pareto an Italian Economist.

Learning Curve: Learning Curve is identified as a function that measures as to how labour hours per unit of product or service keep declining as the workers keep learning with every repetition of a job. Learning Curve reveals the labour savings that accrues when a job is done repeatedly.

Linear Programming (LP): Linear programming (LP), also called linear optimization, is a method to achieve the best outcome -such as maximum profit or lowest cost - in a mathematical model whose requirements are represented by linear relationships. More formally, linear programming is a technique for the optimization of a linear objective function, subject to linear equality and linear inequality constraints.

Transportation Problem: The transportation problem, a special type of Linear Programming Problem, is used to find the optimal way in which a product produced at various plants or sources can be transported to various destinations (demand points). The objective of the problem is to find the amount of commodity to be transported from each source to each destination so that the destination requirements within the operating production capacity constraints are satisfied at minimum transportation cost.

Simulation: A simulation is an imitation of the operation of a real-world process or system. The act of simulating something first requires that a model be developed and that this model represents the key characteristics, behaviours and functions of the selected physical or abstract system or process. The model represents the system itself, whereas the simulation represents the operation of the system over time. Simulation is a very useful technique in the Cost Management.

Monte Carlo Simulation: Monte Carlo simulation, or probability simulation, is a technique used to understand the impact of risk and uncertainty in financial, project management, cost, and other forecasting models. When faced with significant uncertainty in the process of making a forecast or estimation, rather than just replacing the uncertain variable with a single average number, the Monte Carlo Simulation might prove to be a better solution.

PERT: Project Evaluation and Review Techniques (PERT) is a method of analysing the tasks involved in completing a given project, especially the time needed to complete each task, and to identify the minimum time needed to complete the total project. It incorporates uncertainty by making it possible to schedule a project while not knowing precisely the details and durations of all the activities. It is more of an event-oriented technique rather than start- and completion-oriented, and is used more in projects where time is the major factor rather than cost. It is applied to very large-scale, one-time, complex, non-routine infrastructure and Research and Development projects.

CPM: Critical Path Method (CPM) or Critical Path Analysis (CPA) is a project management tool that helps determination of the minimum time needed to complete a project.

GROUP: 3, PAPER: 16

DIRECT TAX
LAWS AND INTERNATIONAL TAXATION (DTI)

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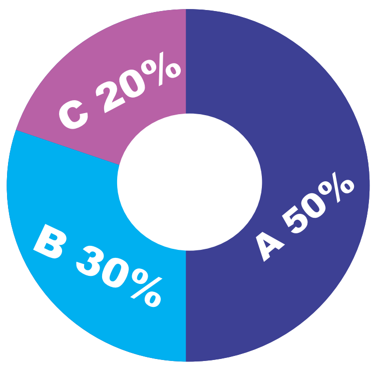
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

- To understand the concept of appeals before CIT – (Appeals)
- To know the provisions regarding appeal to Commissioner (Appeals).

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

Under the Income-tax Act, different types of interests are levied for various kinds of delays/defaults. In this,we are discussing about the provisions of sec. 234A, 234B and 234C dealing with interest levied for (i) delay in filing the return of income; (ii) non-payment or short payment of advance tax; and (iii) non-payment or short payment of individual instalment or instalments of advance tax (i.e., deferment of advance tax).

Before understanding the provisions of sec. 234A, 234B and 234C it is important to understand the provisions of Rule 119A which gives the manner of computation of interest under the Income-tax Act

1. ***Rounding off the amount on which interest is to be calculated***
   Amount on which such interest is calculated will be rounded off to the multiple of 100 by ignoring any fraction of 100. E.g., amount on which interest is to be calculated is ₹ 240 or ₹ 290, then it is to be rounded off to ₹ 200 by ignoring fraction of ₹ 40 or ₹ 90.
2. ***Rounding off the period for which interest is to be calculated***
   - When interest is calculated on monthly basis, any fraction of the month shall be taken as full month. E.g., Interest is to be calculated from 1st August to 5th December, then interest shall be calculated for 5 months.
   - When interest is calculated on annual basis, any fraction of the month shall be ignored.

Interest for default in furnishing return of income [Sec. 234A]

Condition: Where a person, who is required to furnish return of income –

a) fails to furnish a return; or
b) furnishes it after the due date specified u/s 139(1).

Amount on which interest is to be charged: On the amount of tax determined u/s 143(1) or on regular assessment as reduced by advance tax paid and tax deducted or collected at source, if any.

In other words, interest is to be calculated on the following amount:

Particulars	Amount	Amount
Tax determined u/s 143(1) or on Regular assessment*		***
Less: Advance Tax paid	***	
Relief u/s 90 or 90A or 91	***	

Credit allowed u/s 115JAA (MAT Credit)	***	
Tax deducted/collected at source	***	***
Amount for Interest Calculation		***

* Regular Assessment means assessment u/s 143(3)/144/147 (first time)/153A(first time).

__Rate of Interest__: Simple interest @ 1% per month or part thereof
__Period__: For every month or part of a month commencing from the day immediately following the due date for furnishing return for the relevant assessment year and ending on:

- Where the return is furnished after due date : Date of furnishing return
- Where the return is not furnished at all : Date of completion of assessment u/s 144

__Taxpoint__

1. For the purpose of self-assessment u/s 140A, interest shall be calculated on tax liability as declared in the return by the assessee.

2. As interest liability u/s 234A is different, in case of assessment by assessee himself (i.e. self- assessment) and assessment made by income tax authority (i.e. assessment u/s 143(1) or regular assessment), therefore, interest paid u/s 234A at the time of self-assessment shall be reduced from final interest liability u/s 234A.

3. Interest shall not be charged where delay in filing return is due to strike in income-tax department

__Illustration 1__

Calculate interest u/s 234A in the following cases –

Name of the assessee	A	A Ltd.	B
Due date of furnishing return	31st July	30th September	31st July
Date of filing return	4th December	30th January	Not filed
Date of completion of assessment	1st March	15th April	15th February
Income as per return	₹ 5,80,000	₹ 5,00,000	--
Assessed Income	₹ 6,10,000	₹ 5,50,000	₹ 12,00,000
Advance tax paid	₹ 20,000	₹ 25,000	₹ 1,00,000
Tax deducted at source	₹ 20,000	₹ 15,000	₹ 80,000
Tax paid along with return	₹ 70,000	₹ 1,50,000	--

Also state interest payable u/s 234A for the purpose of sec.140A. Ignore interest under any other section.

__Solution__
Computation of interest u/s 234A

Particulars	Code	A	A Ltd.	B
Period of default	A#	5 months (Aug. to Dec.)	4 months (Oct. to Jan.)	7 months (Aug. to Feb.)
Assessed Income	B	6,10,000	5,50,000	12,00,000
Tax rate	C	Slab-rate	30%	Slab rate
Tax liability before surcharge	D=B*C	34,500	1,65,000	1,72,500
Rate of Surcharge	E	Nil	Nil	Nil
Surcharge	F=D*E	Nil	Nil	Nil
Tax and surcharge payable	G=D+F	34,500	1,65,000	1,72,500
Health &Education cess	H=G*4 %	1,380	6,600	6,900
Tax liability on assessed income	I=G+H	35,880	1,71,600	1,79,400
Less: Advance tax paid & tax deducted at source	J	20,000	40,000	1,60,000
Shortfall	K=I-J	15,880	1,31,600	19,400
Rounded off	L	15,800	1,31,600	19,400
Interest (1% * A * L)		**795**	**5,264**	**1,358**
Note: Tax paid along with return shall not be reduced while computing interest u/s 234A				

Computation of interest u/s 234A for the purpose of sec.140A

Name of the assessee	Code	A	A Ltd.
Period of default	A#	5 month (Aug. to Dec.)	4 months (Oct. to Jan.)
Returned Income	B	5,80,000	5,00,000
Tax rate	C	Slab-rate	30%
Tax liability before surcharge	D = B * C	28,500	1,50,000
Rate of Surcharge	E	Nil	Nil
Surcharge	F = D * E	Nil	Nil
Tax & surcharge on above	G=D+F	28,500	1,50,000
Health &Education cess	H=G*4%	1,140	6,000
Tax liability on assessed income	I=G+H	29,640	1,56,000
Less: Advance tax paid & tax deducted at source	J	20,000	40,000
Shortfall	K=I-J	9,640	1,16,000
Rounded off	L	9,600	1,16,000
Interest (1% * A * L)		480	4,640

It is to be noted that when interest is calculated on monthly basis, any fraction of the month shall be taken as full month.

Note: In case of B, return has not been filed, hence interest payable u/s 234A at the time of self-assessment cannot be computed.

Interest for default in paying advance tax [Sec. 234B]

Condition: Where a person, who is required to pay advance tax, fails to pay –

(a) advance tax at all; or
(b) 90% of assessed tax as advance tax.

Amount on which interest is to be charged –

Particulars	Interest
Where no tax is paid u/s 140A	Assessed tax – Advance tax paid
Where tax is paid u/s 140A	
Period upto the date on which tax as per self-assessment is paid	Assessed tax – Advance tax paid
Period after the date on which the tax as per self assessment is paid	Assessed Tax – Advance tax paid - Tax paid on Self Assessment*
# Assessed tax means tax determined u/s 143(1) or Regular assessment as reduced by - Tax deducted or collected at source; - Relief allowed u/s 90 or 90A or 91; - Credit allowed u/s 115JAA or 115JD (MAT or AMT Credit)	
* Where amount paid under self-assessment falls short of tax and interest calculated as per self-assessment, then amount paid shall be first adjusted towards interest and balance, if any, shall be adjusted towards tax payable.	

Rate of interest: Simple interest @ 1% per month or part thereof

Period: For every month or part of a month commencing from 1st day of April of the relevant assessment year and ending on the date of determination of tax u/s 143(1) or on regular assessment.

Taxpoint

1. For the purpose of self-assessment u/s 140A, interest shall be calculated on tax as per income shown in the return.

2. As interest liability u/s 234B is different in case of assessment by assessee himself (i.e. self- assessment) and assessment made by income tax authority (i.e. assessment u/s 143(1), regular assessment), therefore interest paid u/s 234B at the time of self-assessment shall be reduced from final interest liability u/s 234A.

Illustration 2

A firm furnished its return of income on 30th June, 2019 showing income of ₹ 1,00,000. The return shows other particulars as follows –

Advance tax ₹ 20,000
TDS ₹ 1,000

The AO passed the assessment order enhancing income by ₹ 5,000 on 29-3-2020. Compute interest u/s 234B.

Solution

Computation of interest u/s 234B

Particulars	Amount
Assessed Income	1,05,000
Tax liability before surcharge [₹ 1,05,000 * 30%]	31,500
Add: Health &Education cess @ 4%	1,260
Tax and cess payable	32,760
Less: Tax deducted at source	1,000
Assessed tax	31,760
90% of above	28,584
Advance tax paid	20,000
Since advance tax paid by the firm is less than 90% of assessed tax, sec. 234B is applicable	
Shortfall (Assessed tax *less* Advance tax paid)	11,760
Rounded off	11,700
Period of default [From April 2019 to March 2020]	12 months
Interest u/s 234B (1% x₹ 11,700 x 12)	**1,404**

For deferment of Advance Tax [Sec. 234C]

Condition: Payment of advance tax is to be made at specified percentage within given dates*. In case assessee fails to pay the amount or pays lesser amount as required by the schedule, then assessee will have to pay interest u/s 234C for such deferment.

Amount on which interest is payable

Particulars	Amount
Specified % of tax* on the total income declared in the return filed by the assessee	***
Less: Tax deducted/collected at source	***
Less: Amount of advance tax paid on or before the due date of payment as per the advance tax payment schedule.	***
Less: Other Credit allowed (if any)	***
Amount on which interest shall be calculated	***

*Specified % of tax for calculation of interest under this section

Types of Assessee	Due date of Instalment (P.Y.)	Amount Payable
An eligible assessee in respect of an eligible business referred to insec. 44AD or 44ADA	On or before March 15	100% of advance tax liability

In case of other assessee	On or before June 15	Not less than 15% of tax. [Note 1]
	On or before September 15	Not less than 45% of tax as reduced by the amount paid in the earlier installment [Note 2]
	On or before December 15	Not less than 75% of tax as reduced by the amount paid in the earlier installments
	On or before March 15	The whole amount of tax as reduced by the amount paid in the earlier installments

Taxpoint

1. Where anassessee has paid 12% or more of tax as advance tax on or before June 15, then no interest u/s 234C is payable.
2. Where anassessee has paid 36% or more of tax as advance tax on or before September 15, then no interest u/s 234C is payable.
3.

Rate of interest: Simple interest @ 1% per month or part thereof
Period: 3 months (1 month for last instalment)

Other Points

No interest will be levied in respect of any shortfall in the payment of advance tax due on the returned income, if –

a) The shortfall is on account of under-estimation or failure to estimate the amount of capital gains or income of the nature referred to in section 2(24)(ix) [i.e. lottery, cross-word, etc.]; and

b) The assessee has paid the whole of the amount of tax payable in respect of such income as part of the remaining installment(s) of advance tax which were due or where no installment were due, by March 31 of the previous year.

Illustration 3
A firm made the following payments of advance tax during the financial year 2018-19:

	₹ in lakh
September 15, 2018	7.00
December 15, 2018	7.75
March 15, 2019	10.75
	25.50

The return of income is filed on 31-7-2019 showing -
Business income ₹ 80 lakh
Long term capital gain taxable @ 20% (as on 1-12-2018) ₹ 10 lakh
Compute interest payable u/s 234C.

Solution
Computation of tax liability for A.Y. 2019-20
₹ in lakh

Particulars	Business income	Long term capital gain
Income	80.00	10.00
Tax rate	30%	20%
Tax liability before cess	24.00	2.00
Add: Health &Education cess	0.96	0.08
Tax liability including cess	**24.96**	**2.08**

Computation of interest payable u/s 234C

Particulars	Installment of Advance tax			
	15/6/2018	**15/9/2018**	**15/12/2018**	**15/3/2019**
Rate of Advance tax	15%	45%	75%	100%
Amount payable				
(24,96,000 x15%)	3,74,400			
(24,96,000 x45%)		11,23,200		
[(24,96,000 + 2,08,000) x75%]			20,28,000	
[(24,96,000 + 2,08,000) x 100%]				27,04,000
Less: Amount paid till date	Nil	7,00,000	14,75,000	25,50,000
Shortfall	3,74,400	4,23,200	5,53,000	1,54,000
Rounded off (a)	3,74,400	4,23,200	5,53,000	1,54,000
Period of default (b)	3 months	3 months	3 months	1 month
Interest (1% x a x b)	₹ 11,232	₹ 12,696	₹ 16,590	₹ 1,540
Total interest payable u/s 234C	₹42,058			

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December 2019, Issue

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: 4, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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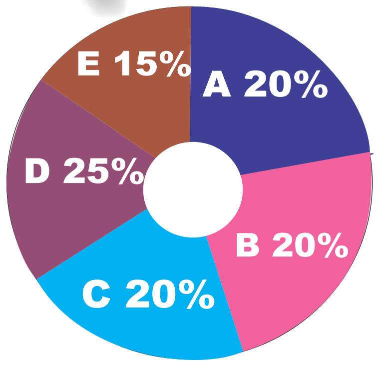
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business Comminations & Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **25%**
E Government Accounting in India **15%**

Learning Objectives:

After studying the present section of Corporate Financial Reporting you will be able to:

- Learn how to highlight the achievements of a company to its investors, creditors, bankers, public, employees, regulatory bodies and Government on a periodic basis
- To convey future based strategic roadmap for the company.

Share-based payment arrangements with cash alternatives

Some employee share-based payment arrangements permit the employee to choose whether to receive cash or equity instruments. In this situation, a compound financial instrument has been granted, ie a financial instrument with debt and equity components.

Here is one illustrative problem of share based payment arrangement with compound financial instrument.

Problem:

On condition of completion of 3 years service an employee is granted the right to choose either (i) right to cash payment equal to the value of 3000 shares, or (ii) 3600 shares with restriction to hold them for 3 years after vesting. The share price (nominal value Rs. 10) at the grant date is Rs. 60 and after taking the effect of the post-vesting transfer restriction the fair value is estimated at Rs. 54 per share. At the end of the years 1, 2 and 3 the share price is Rs. 64, Rs.68 and Rs. 72 respectively.

At the end of year 3, the employee chooses: (a) the cash alternative; (b) the equity alternative.

Show the necessary workings and pass the journal entries.

A brief discussion of the relevant parts of the standard (Ind AS 102) is made before the solution.

When the fair value of equity alternative at the grant date is greater than the fair value of the cash alternative at the grant date, the excess is measured as the fair value of the equity component of the compound financial instrument.

Both the equity component and liability component will be recognized during the vesting period proportionate to the period expired to the total vesting period. Until the liability is settled, the entity shall re-measure the fair value of the liability at the end of each reporting period.

At the end of the vesting period if the employee chooses cash alternative the liability will be paid by cash. If equity alternative is chosen, the liability will be settled by issue of equity. The equity already recognized during the vesting period for the equity component shall remain within the equity.

Solution:

Working Note 1: Fair value of equity component:

The fair value of the equity alternative = 3600 shares X Rs. 54 per share = Rs. 194400

The fair value of the cash alternative = 3000 shares X Rs. 60 per share = Rs. 180000

The fair value of the equity component = Rs. 194400 – Rs. 180000 = Rs. 14400

Working Note 2: Expenses, Equity and Liabilities recognized in the years 1, 2, and 3.

Year		Expenses	Equity	Liabilities
1	Liability component 3000*64*1/3	64000		64000
	Equity component 14400*1/3	4800	4800	
2	Liability component 3000*68*2/3 – 64000 = 136000-64000	72000		72000
	Equity component 14400*1/3	4800	4800	
3	Liability component 3000*72- 136000 = 216000 - 136000	80000		80000
	Equity component 14400*1/3	4800	4800	
Total		230400	14400	216000

Journal:

Year	Particulars	Dr. Rs.	Cr. Rs.
1	Employee Expenses Dr.	68800	
	To, Share based payment reserve (Other equity)		4800
	To, Share based payment liability		64000
	(recognition of equity option and cash settlement option)		
2	Employee Expenses Dr.	76800	
	To, Share based payment reserve (Other equity)		4800
	To, Share based payment liability		72000
	(recognition of equity option and cash settlement option)		
3	Employee Expenses Dr.	84800	
	To, Share based payment reserve (Other equity)		4800
	To, Share based payment liability		80000
	(recognition of equity option and cash settlement option)		
3	(a) Cash alternative:		
	Share based payment liability Dr.	216000	
	To Cash		216000
	(settlement in cash)		
	(b) Equity alternative:		

Share based payment liability Dr.	216000	
To, Equity Share Capital (10*3000)		30000
To, Security Premium (62*3000)		186000
(settlement in equity)		

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150 YEARS OF CELEBRATING THE MAHATMA

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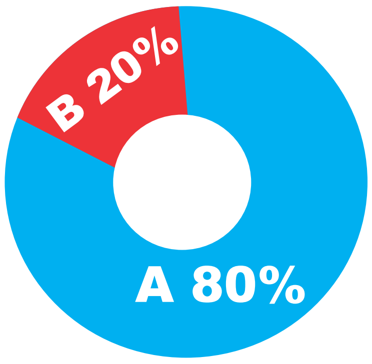
GROUP: 4, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

Your Preparation Quick Takes



Syllabus Structure

A Advanced Indirect Tax and Practice **80%**

B Tax Practice and Procedures **20%**

Learning Objectives –

- Objectives of introducing E way bill systems
- Basic features of E way bill
- Generation of E way bill
- Various Forms related to E way bill
- Formats and Requirements of GST EWB
- Transportation of certain goods for which E way bill not required

ELECTRONICS WAY BILL (E WAY BILL)

After the implementation of GST from 1.07.2017 the inter state movement of the goods become faster as the physical barrier at state border being lifted in GST regime. CGST Rules,2017 containing the necessary provision for E Way Bill and which become effective from 01.04.2017 all over India for inter state transportation of goods.

The major objective of introducing e way bill system are

1.Through a single e way bill movement of the goods can be possible throughout the India

2. Evasion of tax can be prevented.

3.Movement of goods across India without any hassle

4.Movement of goods with way bill number can be traced easily.

5. Verification of e way bill by the authority become easier.

The basic features of e way bill can be summarized as follows –

1. In the present system, generation of e way bill through different methods become easier and quicker and also become user friendly.

2. Various checking system at the time of generating e way bill drastically reduces the chances of any error or mistake.

3. The system under GST regime allow the trader or user to generate own master like customers, suppliers, transporters etc and the system also support to generate and have option to register the specific mode for the same.

4. A registered person through system able to know about the generation of e way bill against him or her by the other registered person and can reject the same if so desire.

5. A registered person can monitor the generation of e way bill of sub user like

employee, branches etc as per requirements to whom it specifically assigned.

6. The system now automatically take the necessary information for GSTR – 1 and uploaded for GSTR – 1 return also from the generated e way bill.

7. The transporter can generate consolidated e way bill with support of the system instead of multiple e way bill for multiple consignment.

8. Unregistered transporter now can enroll and can create a user for them to generate the e way bill and update the vehicle number.

9. The user of e way bill now become aware and properly informed about the position of their e way bill generation through system alert and notification.

10. Implementation of Quick Response code (QR) and Radio Frequency Identification Device

(RFID) helps the GST officers for faster and easier verification of e way bill and tracking the movement of e way bill without stopping the vehicle on the road.

Generation of E – way bill of three parts –

1. Part A – which contains the description of the goods generally fill by the consignor but can be filled by other also.
2. Part B – which contains the mode of transport, which is normally expected to be filled by transporter but in some cases, can be filled by others.
3. After filling up of Part A and Part B a unique e way bill number and date generate on common portal.

Following are the various Forms related to E Way Bill

1. EWB 01 – Generation of e way Bill
2. EWB 02 – Consolidation of E Way Bill
3. EWB 03 – Verification Report
4. EWB 04 – Report of detention
5. ENR 01 – Application for Enrollment (only for unregistered dealer)
6. INV 01 - Generation of invoice reference number.

Before the movement of goods starts the registered consignor is required to furnish the specified information / details if value exceeds Rs 50000/- through electronics mode in Part A of the EWB 01 in relation to –

(a) In relation to supply
(b) For reason other than supply or
(c) Due to inward supply from an unregistered person

In case of unregistered consignor, consignee is required to furnish the information.

Formats and requirements of GST EWB are as below

FORM GST EWB-01
(See Rule 138)
E-Way Bill

PART-A	
A.1	GSTIN of Recipient
A.2	Place of Delivery
A.3	Invoice or Challan Number
A.4	Invoice or Challan Date
A.5	Value of Goods
A.6	HSN Code
A.7	Reason for Transportation
A.8	Transport Document Number
PART-B	
B.	**Vehicle Number**

Notes:

1. HSN Code in column A.6 shall be indicated at minimum two digit level for taxpayers having annual turnover upto five crore rupees in the preceding financial year and at four digit level for taxpayers having annual turnover above five crore rupees in the preceding financial year.
2. Transport Document number indicates Goods Receipt Number or Railway Receipt Number or Airway Bill Number or Bill of Lading Number.
3. Place of Delivery shall indicate the PIN Code of place of delivery.
4. Reason for Transportation shall be chosen from one of the following:

Code	Description
1	Supply
2	Export or Import
3	Job Work
4	SKD or CKD
5	Recipient not known
6	Line Sales
7	Sales Return
8	Exhibition or fairs
9	For own use
0	Others

FORM GST EWB-02
(See Rule 138)
Consolidated E-Way Bill

Number of E-Way Bills
E-Way Bill Number

FORM GST EWB-03
(See Rule138C)
Verification Report

Part A
Name of the Officer
Place of inspection
Time of inspection
Vehicle Number
E-Way Bill Number
Invoice or Challan or Bill Date
Invoice or Challan or Bill Number
Name of person in-charge of vehicle
Description of goods
Declared quantity of goods
Declared value of goods
Brief description of the discrepancy
Whether goods were detained?
If not, date and time of release of vehicle
Part B
Actual quantity of goods
Actual value of the Goods
Tax payable
Integrated tax
Central tax
State or UT tax
Cess
Penalty payable
Integrated tax
Central tax
State or UT tax
Cess

Details of Notice
Date
Number
Summary of findings

FORM GST EWB-04
(See Rule138D)
Report of detention

E-Way Bill Number	
Approximate Location of detention	
Period of detention	
Name of Officer in- charge	(if known)
Date	
Time	

Transportation of certain goods for which e way bill not required as per Annexure A to rule 138(14) of CGST Rules mentioned below –

(a) Liquefied petroleum gas (LPG) for supply to household and non domestic exempted category (NDEC) customers.
(b) Kerosene oil sold under PDS
(c) Postal baggage transported by department of posts
(d) Natural or cultured pearls and precious or semi precious ,precious metals and metal clad with precious metal
(e) Jewellery, goldsmiths and silversmiths wares and other articles
(f) Currency
(g) Used personal and household effects
(h) Coral, unworked and worked coral

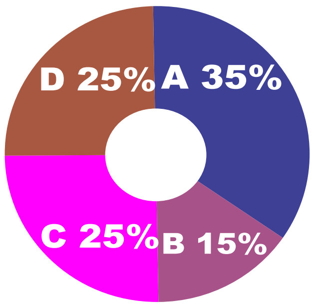
YEARS OF CELEBRATING THE MAHATMA

GROUP: 4, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

CMA Bimalendu Banerjee
He can be reached at:
bbanerjee2050@gmail.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

Companies (Cost Records and Audit) Rules, 2014
Form CRA – 1
[Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014]

Synopsis of certain items which are to be included in the Books of Accounts are given below. This is in continuation to the earlier e-bulletin wherein items no 1 to 17 have already been shown.

18. CAPACITY DETERMINATION

- *Capacity* shall be determined in terms of :
  - Units of production, or
  - Equivalent machine or man hours
- *Installed capacity* is determined based on:
  (i) Manufacturers Technical Specification:
    - In case the same is not available, the estimates by technical experts on capacity under ideal conditions shall be considered.
    - In case any production facility is added or discarded or in case of improvement of production process, the installed capacity shall be determined from the date of such addition/discard/ or improvement.
  (ii) Capacities of production centres
  (iii) Operational constraint or capacity of critical machines
  (iv) Number of shifts
- *Normal Capacity* shall be determined vis-à-vis installed capacity after carrying out the following adjustments.
  (a) Holidays, normal shutdown days and normal idle time.
  (b) Normal time lost in batch change – over.
  (c) Time lost due to preventive maintenance/normal break down of equipments.
  (d) Loss in efficiency due to ageing of equipments
  (e) Number of shifts
- *Capacity utilization* is actual production measured as a percentage of installed capacity.

19. WORK-IN-PROGRESS AND FINISHED STOCK

- Cost records shall show the *method adopted* for determining the cost of WIP and finished stock.
- All conversion costs in bringing the inventories to their present location and condition shall be taken into account.
- Methods determining the costs of above shall be appropriate and consistently followed.

20. CAPTIVE CONSUMPTION

- Proper cost records shall be maintained showing *cost and quantities of goods and services* for captive consumption.
- Records shall show such particulars in relation to goods and services transferred to other cost centres or departments of the company for self-consumption and sold to outside parties as well separately.

21. BY-PRODUCTS AND JOINT PRODUCTS
- In respect of By-Products, proper records shall be maintained in respect of each item both in quantity and value for receipt, issue and balance.
- Basis adopted for valuation for giving credit to the respective process shall be equitable and consistent.
- Proper records shall be maintained showing
  - Expenses incurred in further processing,
  - Actual sales realization, and
  - Credit or recoveries from the disposal of by – products.
- In respect of Joint Product, proper records shall be maintained showing
  - Cost up to the point of separation of products or services
  - Basis of apportionment of such joint cost to joint products and services. Basis shall be equitable and consistent.
  - Credits or recoveries from the disposal of joint products and services.

22. ADJUSTMENT OF COST VARIANCES
- Where standard costing system is in vogue, proper cost records shall be maintained showing
  - Procedure followed in working out the cost of goods and services
  - Cost variances against separate heads and analysed into material, labour & overheads and further segregating into quantity, price and efficiency variances.
  - Method followed for adjusting the cost variances in determining the actual cost of goods and services.
  - Reasons for variances duly explained.

23. RECONCILIATION OF COST AND FINANCIAL ACCOUNTS
- Such reconciliation shall be made for the financial year specially indicating the expenses or incomes not considered in the cost records. This is to ensure accuracy and to adjust the profit of the goods and services under reference with overall profit of the company.
- The variances, if any, shall be clearly indicated and explained along with the reasons therefor.

24. RELATED PARTY TRANSACTIONS
- Section 2(76) of the Companies Act, 2013 defines a related party with reference to a company to mean: (briefly stating) a private company or a public company in which a director or manager is a director and holds along with his relatives, more than 2% of its paid up share capital.
- "Normal price" is important in this context. It means -
  price charged for comparable and similar products,
  in the ordinary course of trade and commerce,
  where the price charged is the sole consideration of sale,
  and such sale is not made to a related party.
- "Normal Price" is to be determined on the following basis:

(i) Comparable and uncontrolled price method.
(ii) Resale price method
(iii) Cost plus method
(iv) Profit split method
(v) Transactional net margin method, or
(vi) Any other method, to be specified

- (Briefly stating) In respect of related party transactions, records shall be maintained showing :
  (i) Purchase and sale of raw materials, finished goods or rendering services,
  (ii) Utilization of plant facilities and technical know-how,
  (iii) Supply of utilities /other services
  (iv) Various services viz. Administrative/Technical /Managerial/Consultancy etc.
  (v) Purchase and sale of capital goods
  (vi) Any other payment related to production of goods or rendering services
- Records shall also indicate the basis followed for arriving at the rates charged or paid for such goods and services for determining reasonableness of such rates.

25.EXPENSES OR INCENTIVES ON EXPORTS

- Proper records shall be maintained showing expenses incurred on goods and services exported so that cost of export sales can be determined.
- Separate cost statements shall show details of export expenses incurred and incentives earned.
- Proper records shall be maintained showing export-commitment and fulfillment thereof along with reasons for non-compliance, if any.
- Cost statements shall reflect duty free imports, if made.

26.PRODUCTION RECORDS

- Quantitative records shall be maintained in respect of
  - All finished goods (packed or unpacked) and services rendered showing production, issues for sales and balances of each type.
  - Details of production of goods or services rendered, separately for self produced, third party or job work, loan license basis etc.

27. SALES RECORDS

- Separate records shall be maintained in respect of domestic sales and delivery along with export sales and delivery.
  - Reg. domestic sales and delivery made
    - at control price
    - at market price
    - to related party and
    - for inter-unit transfer
  - Reg. Export sales and delivery made
    - Under advance license
    - Under other obligation,
    - At market price
    - To related party
    - For inter-unit transfer
- Above details shall be maintained separately for each plant – unit-wise /service – centre-wise for total as well as per unit sales realization.

28. COST STATEMETNS

- Quantitative information in respect of each goods and services shall be given in the cost statements (monthly, quarterly and annually) showing the following details (for current financial year and previous year)
  - Available capacity,
  - Actual production,
  - Production as per excise records,
  - Capacity utilization (in-house),
  - Stock purchased for trading,
  - Stock and other adjustments,
  - Quantity available for sale,
  - Wastage,
  - Actual sale.
- Statements shall also include details in respect of
  - All major items of costs constituting cost of production of goods and services
  - Cost of sales of goods and services
  - Margin in total as well as per unit the goods and services.
- Reconciliation of indirect taxes shall be made in the cost statements (monthly, quarterly and annually) showing the following details.
  - Total clearances of goods and services
  - Assessable value,
  - Taxes or duties paid
  - CENVAT or VAT or Service Tax Credit utilized,
  - Taxes or duties recovered, and
  - Interest or penalty paid.
- Separate cost statements showing above details shall be prepared in respect of each of the plant/factory/service centre, in case the company has more than one such units
- Any other statement necessary for suitable presentation of cost and profitability of the goods and services produced by the company, shall also be prepared.

29. STATISTICAL RECORDS

- Records shall be maintained regarding
  - Available machine hours or direct labour hours and actually utilized in respect of goods produced or service rendered.
  - Shortfall in production or services shall be suitably analyzed and recorded
  - Idle time of machines or labour hours shall be analyzed and recorded.
- Proper records shall be maintained reg.
  - Capital employed
  - Fixed assets
  - Working Capital
  - Fresh investments on fixed assets that have not contributed to production of goods or rendering services.
  - Assets added as replacement and those added for increasing existing capacity
  - Non-identifiable items shall be allocated to different goods and services on a suitable basis.

30. RECORDS OF PHYSICAL VARIFICATION

- Records of physical verification shall be maintained in respect of all items held in stock, viz.
  - Fixed assets
  - Raw materials
  - Process materials,
  - Packing materials,
  - Consumable stores
  - Machinery spares
  - Chemicals
  - Fuels
  - Finished goods etc.

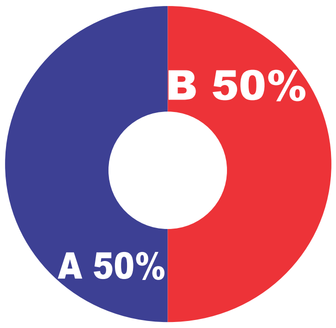
- Reasons for shortages and surplus arising out of such verifications shall be recorded.
- Method followed for adjusting the above in the cost of the goods or services shall also be indicated in the records.

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta

GROUP: 4, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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:

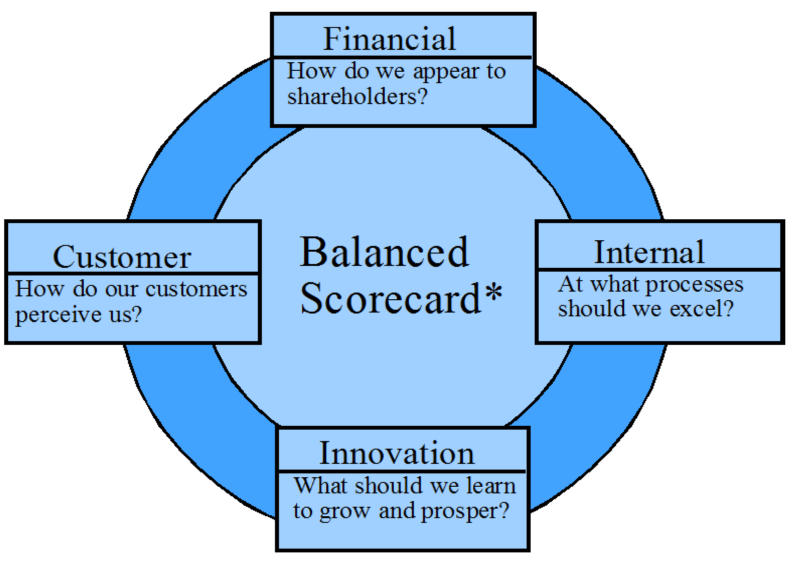
- understand free cash flow valuation
- solve the problems on free cash flow valuation

Financial Evaluation
Balanced Score Card and DuPont Analysis

BALANCED SCORE CARD

The Balanced Scorecard (or **balance score card**) is a strategic performance measurement model which is developed by Robert Kaplan and David Norton. Its objective is to translate an organization's mission and vision into actual (operational) actions (strategic planning). It is a performance management and strategy development methodology that helps executives translate on organization's mission statement and overall business strategy into specific, qualifiable goals and monitors the organization's performance in terms of these goals. BSC also aligns budgets to strategy and helps in developing an enterprise performance management system. It is a set of financial and non-financial measures relating to company's critical success factors. As a management tool it helps companies to assess overall performance, improve operational processes and enable management to develop better plans for improvements. It offers managers a balanced view of their organization upon which they can base real change.

Four Perspectives of BSC



* Adapted from Tatikonda & Tatikonda Figure 2, p. 51.
https://maaw.info/ArticleSummaries/ArtSumTatikondaTatikonda98.htm

(A) **Financial:** The financial perspective serves as the focus for the objectives and measures for the objectives and measures in the other scorecard perspectives. This perspective is concerned for profit of the enterprises. Under this perspective the focus will be on financial measures like operating profit, ROI, residual income, economic value added concept, revenue growth, cost reduction, asset utilization etc.

These financial measures will provide feedback on whether improved operational performance is being translated into improved financial performance.

(B) **Customer:** Each organization serves a specific need in the market. This is done with a target group in mind, namely its customers. Customers determine the quality, price, service and the acceptable margins on these products and/or services. Organizations always try to meet customer expectations that may change at any time. The existence of alternatives (those of the competitor) has a large influence on customer expectation. This perspective answers the question: "*How attractive should we appear to our customers?*"

(C) **Internal Business Processes:** This perspective focuses on the internal business results that lead to financial success and satisfied customer. To meet organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. Key processes are monitored to ensure that outcomes will be satisfactory. The principal internal business processes include the following:

(a) Innovation processes for exploring the needs of the customers.
(b) Operation processes with a view to providing efficient, consistent and timely delivery of product/ service.
(c) Post service sales processes.
This perspective answers the question: "*What must we excel at to satisfy our customers and shareholders/ financial backers?*"

(D) **Learning and Growth:** This perspective looks at the ability of employees, the quality of information systems, and the effects of organizational alignment in supporting accomplishment of organizational goals. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information, are driving them. In order to meet changing requirements and customer expectations, employees may be asked to take on dramatically new responsibilities, and may require skills, capabilities, technologies, and organizational designs that were not available before. The learning and growth perspective identifies the infrastructure that the business must build to create long-term growth and improvement. There will be focus on factors like employee capability, employee productivity, employee satisfaction, employee retention.

Limitations of Balanced Score Card (BSC)

BSC is subject to following limitations
- There is no clear relation between BSC and shareholder value.
- It does not lead to a single aggregate summary of control.
- The measures may give conflicting signals and confuse management.
- It involves substantial shifts in corporate culture.

DUPONT ANALYSIS

The DuPont analysis is a framework for analyzing fundamental performance originally popularized by the DuPont Corporation. DuPont analysis is a useful technique used to decompose the different drivers of return on equity (ROE). An investor can use analysis like this to compare the operational efficiency of two similar firms. Managers can use DuPont analysis to identify strengths or weaknesses that should be addressed.

The company's Return on Assets, ROA (=Net Income/Assets), can be expressed as:
ROA = (Net Income/Revenue) × (Revenue/Assets) = Profit Margin × Asset Turnover
And the company's Return on Equity, ROE (=Net Income/Equity), can be expressed as
ROE = (Net Income/Revenue) × (Revenue/Assets) × (Assets/Equity) = ROA × Equity Multiplier

Both the company's profitability (as measured in terms of profit margin) and efficiency (as measured in terms of asset turnover) determine its ROA. This ROA, along with the company's financial leverage (as measured in terms of its equity multiplier), contributes to its ROE. As the company's use of leverage magnifies its ROE, students are required to examine ROE carefully. The changes in the company's ROE are to be noted and explained through its profit margin, asset turnover, and equity multiplier over time. The objective is to identify the company's strong area that can be capitalized upon and/or its weak area that must be improved upon.

Example

Assume that there are two firms X and Y, each having total assets amounting to Rs.8,00,000 and average net profits after taxes of 10% i.e. Rs.80,000 each. Firm X has sales of Rs.8,00,000 whereas the sales of firm Y aggregate Rs.80,00,000. Determine the Return on Assets of firms X and Y.

Answer:

Return on Assets of Firm X and Y

Particulars	Firm X	Firm Y
1. Net Sales (Rs.)	8,00,000	80,00,000
2. Net Profit (Rs.)	80,000	80,000
3. Total Assets (Rs.)	8,00,000	8,00,000
4. Profit Margin (2÷1) (%)	10	1
5. Assets Turnover (1÷3) (Times)	1	10
6. ROA Ratio (4×5) (%)	10	10

Thus the Return on Assets (ROA) of firms A and B is identical. While firm A has higher profit margin, firm B has higher assets turnover. So, the earning power is affected by two variables namely profit margin and assets turnover. Assets turnover ratio can further be segregated into inventory turnover, debtors turnover and fixed assets turnover ratios. Likewise, profit margin can be decomposed into gross profit, operating profit, profit before taxes and so on.

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
Work Books
Webinar seasons

02 Solve Excercises
given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSION

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,

We from the Directorate of studies know your expectations from us and accordingly we are trying to delivery some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through, Mock Test Papers (MTPs), Work Book, and we have conducted Webinar sessions. 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 Don'ts 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:

"Whatever you do will be insignificant. But it is very important that you do it",

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) : **https://icmai.in/studentswebsite/mtp2016_j19_Final.php**

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

For Work Book Link : **https://icmai.in/studentswebsite/Workbook-Syl-2016-Final-March2019.php**

Live/Recorded Webinar Link : **https://eicmai.in/Webinar_Portal/Students/StudentLogin.aspx**

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

- Don't give up
- Don't give in
- Don't give out

You can win !

We are sure that you will be motivated after looking into the placement news of our students' appeared in the Times of India, newspaper.

Anticipate Victory, Prepare for triumph.
GOOD LUCK in your exams!

Few Snapshots

CMA Balwinder Singh President ICAI and Shri. K Sankaranarayanan Ex-Governor of the Indian state of Maharashtra, Nagaland & Jharkhand inaugurating Thrissur Chapter events by lighting the lamp. With them are CMA H Padmanabhan Council Member ICAI, CMA Dr PVS Jaganmohan Rao President SAFA, CMA Jyothi Satish Chairperson and CMA Sankar Panicker VC ICAI SIRC and CMA T G Sugunan Chairman & MCMs Thrissur Chapter

16th National Awards for Excellence in Cost Management 2018 on October 25, 2019

Seminar on Sabka Viswas (Legacy Dispute Resolution Scheme) 2019 organised by the Tax Research department of the Institute in association with PD Committee of EIRC on 24th October 2019 at CMA Bhawan, Kolkata. Shri Rupam Kapoor, IRS, Principal Commissioner CGST and Shri Suryateja, Joint Commissioner CGST graced the occasion as Chief Guests.

Seminar on Direct and Indirect Tax organised by the Tax Research department of the Institute in association with Bengaluru Chapter on 20th October 2019. Shri Ajaya Saxena, IRS, Principal Commissioner CGST and Shri S V S S Prasad, IRS, Principal Commissioner Income Tax graced the occasion as Chief Guests.

CMA Balwinder Singh, President of the Institute welcomes Mr. Benrodgers M. Milaih, Board Member of Kenya Accountants and Secretaries National Examination Board (KASNEB) on 5th November 2019 at CMA Bhawan, New Delhi.

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