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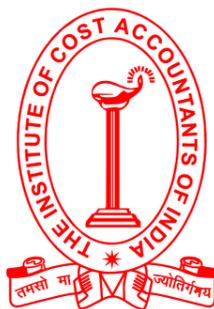
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CMA Student E - Bulletin

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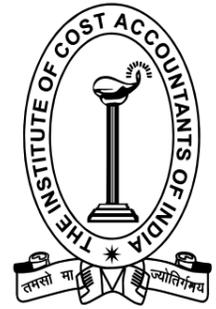
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Behind every successful business decision, there is always a **CMA**

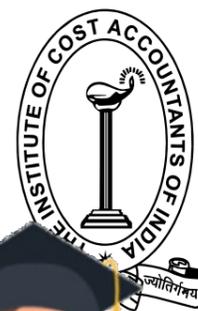


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KNOWLEDGE Update



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.

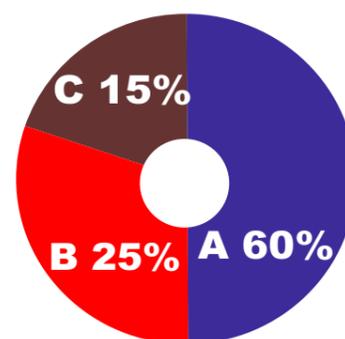


GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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Your Preparation Quick Takes



Syllabus Structure

A Companies Act **60%**

B Other Corporate Laws **25%**

C Corporate Governance **15%**

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.

Corporate Laws & Compliance

1.0. Dividend

Dividend is the part of profit of the company which is distributable to the shareholders proportionate to their holding.

2.0 Pre conditions for declaration of dividend [(section 123(1))]

- (1) Dividend are declared at Annual General Meeting (AGM) which as recommended by the Board of Directors. It should be noted that the shareholders can not declare a percentage of dividend excess than the percentage recommended by the Board. Board of Directors may declare and pay interim dividend out of profit of the current year.
- (2) Dividend shall be declared
 - (i) only out of profits of the financial year in which it is intended to be declared.
 - (ii) Undistributed profit of the previous financial year, both after providing for depreciation.
 - (iii) Out of money provided by Central Govt./ State Govt. in pursuance of a guarantee given by such Govt.
- (3) The company can at its discretion transfer such percentage of profit to the reserves before declaring dividend as it deemed necessary and such transfer is not mandatory.
- (4) Dividend shall be paid only out of free reserves and after carried out losses and depreciation are provided against the profit of the current year.
- (5) Before declaration adjustment of accumulated losses and unabsorbed depreciation has to be made.

3.0 Interim dividend [section 123(3)]

- (1) May be paid by the board of directors between two AGMs, out of:
 - (i) Surplus in PL account
 - (ii) Out of profit of the financial year for which such interim dividend is sought;
 - (iii) Out of the profit generated in the financial year till the quarter preceding the date of declaration of dividend.

4.0. Payment of dividend

- (1) dividend amount, once declared shall to be transferred to a "Special Dividend Account" after 5 days of declaration.
- (2) Dividend shall be payable only in cash/ cheque, warrant sent through post or through electronic mode.
 - (2) Dividend to be paid within 30 days of declaration.

5.0. Unpaid dividend (section 124)

If it is not paid within 30 days, within 7 days shall transfer the amount to unpaid dividend account, within 7 days. Any shareholder claiming shall be paid from the unpaid dividend account.

- (3) The company shall within a period of ninety days of making any transfer to the Unpaid Dividend Account, shall prepare a statement containing the names, their last known address and the unpaid dividend to be paid to each person and place it on the website of the company, if any, and also on any other website approved by the Central Govt. for this purpose.

- (4) Any amount transferred to "Unpaid Dividend Account" which remains unclaimed for a period of 7 years from the date of such transfer shall be transferred to "Investor Education & Protection Fund".
- (5) In case where transfer of share is pending due to any reason dividend payable shall be kept pending until the transfer is complete or the dispute is resolved. Section 126

6.0 Investor Education & Protection Fund. (section125)

The following amount shall be deposited in IEPF by any company.

- (a) The application moneys received by the company for allotment of any securities and due for refund.
- (b) Matured deposits with the company.
- (c) Matured debentures with the company.
- (d) Interest accrued on the amounts above in clauses (a) to (c).
- (e) Grants and donations if any made by the Central Govt., State Govt., Companies or any other organizations.
- (f) The interest or other income received from the investment made out of the money credited in the fund.
- (g) The amount given by Central Government by way of grants after due appropriation made by Parliament by law in this behalf for being utilized for the purpose of fund.
- (h) Donation given to the fund by the Central Government, State Government, Companies or any other institution for the purpose of the Fund.
- (i) The amount in the general revenue account of the Central Government which had been transferred to that account under sub-section (5) of section 205A of the Companies Act, 1956 as it stood immediately before the commencement of this Act.
- (j) The amount lying in the Investor Education and Protection Fund under section 205C of the Companies Act, 1956.
- (k) The amount received by way of punishment for imprisonment for acquisition etc. of securities
- (l) Sale proceeds of fractional shares arising out of issuance of bonus shares, merger and amalgamation for seven or more years.
- (m) Redemption amount of Preference shares remaining unpaid or unclaimed for seven or more years.

7.0. Dividend in case of inadequacy or absence of profit:

In the event of inadequacy or absence of profit the company can declare dividend out of reserves in the following manner:

- (a) The rate of dividend shall not be more than the average of the rates at which dividend was declared in the preceding three years. This rule shall not apply to a company which has not declared any dividend in each of the three preceding years.
- (b) The amount withdrawn from the reserves shall not exceed 1/10th of the sum of the paid-up capital and free reserves of the company as per the latest audited financial statements.
- (c) The amount drawn shall be first utilized for the purpose of set off the losses incurred in that financial year in which the dividend is declared before any dividend in respect of the equity shares is declared.
- (d) The balance amount in the reserve account shall not be less than 15% of the paid-up capital as per the latest audited balance sheet.
- (e) The company shall not declare dividend unless previous year losses or depreciation whichever is less in that previous year and not provided in the previous year are set off against the profit of the current year in which dividend is declared or paid.

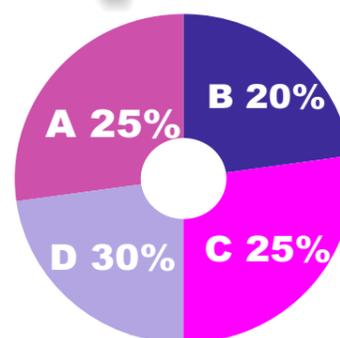


GROUP: iii, PAPER: 14

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 direct and indirect quotations
- know the European terms and American terms

Section C & Study Note 8: Security Analysis and Portfolio Management

- Technical Analysis
- Some Widely Used Price Patterns and Their Interpretation

1. Head and Shoulders

This is one of the most trusted and widely used pattern among all the reversal patterns. The pattern occurs at the end of a bull market and is generally characterized by two smaller rallies flanking a higher rally just as the head lies in between two shoulders. Consider the following diagram.

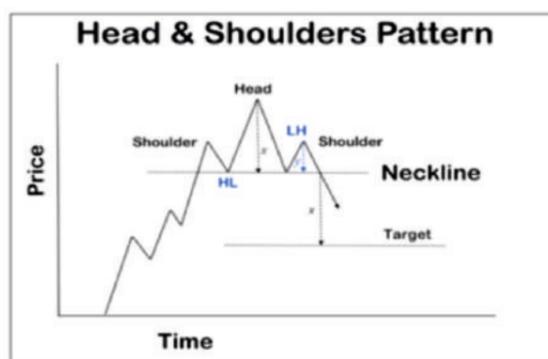


Figure 1: Head and Shoulders Pattern

The shoulders are not necessarily symmetrical, as shown in the above diagram. However, that does not alter the signals provided by the pattern. The basic requirement is that the shoulders must be at lower levels than the head. Here, the left shoulder signifies the penultimate rally in the bull market while the right shoulder confirms the beginning of a bear market, as it fails to climb above the previous rally (the head). The formation is not easily discernible unless the right shoulder is formed. The line which joins the points from where the final rally (head) begins and ends is called the neckline.

Now, a trend reversal generally occurs when the neckline is penetrated by the price line. The technical analysts are found to sell the stock when the price falls by at least 3% from the point of penetration of neckline by the price line. It has been seen that the possibility of price line hovering around the neckline, or rising after a penetration, is very rare. This making the pattern the most trusted indicator of the beginning of a bear market.

In addition to the price pattern, the volume characteristics must confirm the reversal signalled by the head and shoulders formation. Volume should be very heavy at the left shoulder, and should continue to rise, though may be at a lower rate at the head. On the other hand, the formation of the right shoulder should be accompanied by a noticeably low volume.

Head and Shoulder formation may also provide scope for measuring the magnitude of fall in prices. The prices are expected to decline after the penetration at least as much as the distance between the head and the neckline. The head and shoulders pattern may be formed over short periods of a few weeks, or take even years to emerge. The longer the period, greater the distribution of the pattern, and stronger is the corresponding bear trend.

Sometimes, more than one shoulder can be visible on either side of the head. These represent prolonging of the distribution at the end of a bull market. However, reversal is signified once the right shoulder is clearly visible.

2. Inverted Head and Shoulders

Here, the reverse of the previous pattern holds true. The price of the stock falls and rises, which makes an inverted right shoulder. As the fall and rise on the price continues, the head and left shoulders are created. Connecting the tops of the inverted head and shoulders gives the neckline. When the price pierces the neckline from below, it indicates the end of a bear market and the beginning of a bull market. Consider the following diagram.

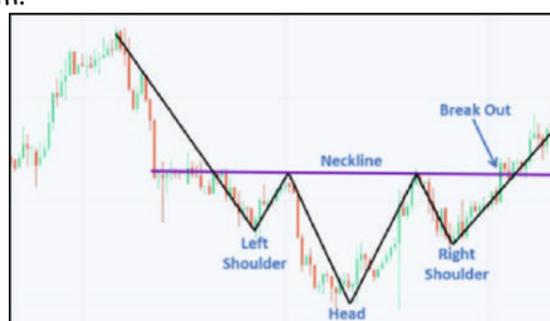


Figure 2: Inverted Head and Shoulders Pattern

3. Double Tops and Bottoms

When prices are found to react after rallying up to a certain level, technical analysts watch the rallies with caution. If subsequent rallies also fail to rise above the previous highs, a level of resistance is found to be developing. A classic pattern that indicates such a resistance is the formation of 'Double Top'.

A double top is formed when prices reach the previous high, and react immediately, the two highs reached being almost at the same level. As a result, one can see two peaks of comparable heights with a reaction forming a valley in between them. Consider the following diagram.

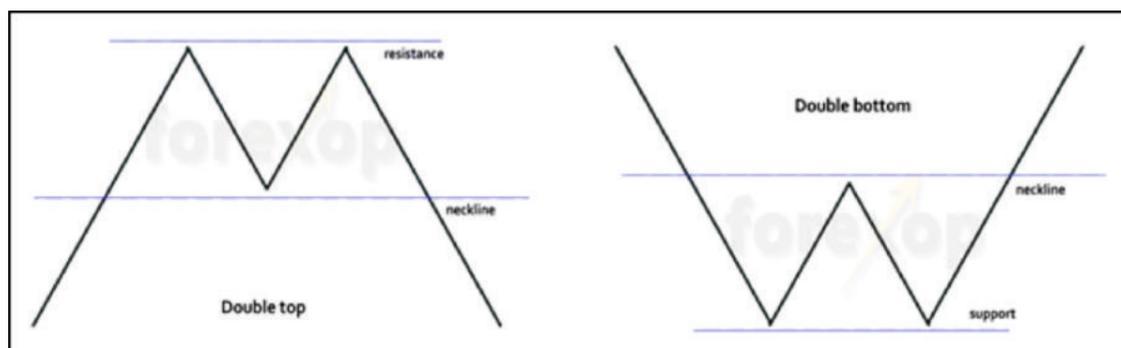


Figure 2: Double Top and Bottom

The prices breakout into a bearish phase, once they penetrate the neckline drawn across the bottom of the intervening reaction. The interpretation is similar to that of head and shoulders pattern. That is, if the price line falls from the neckline by a distance equal to the distance between the peak and the trough, the indication is to sell. Volume is found to be distinctly low at the second top. A double bottom is just the reverse of a double top and occurs at the end of a downtrend in prices, confirming a bullish trend.

While identifying double tops and bottoms, it must be remembered that longer it takes for the second top (bottom) to appear, and deeper the intervening valley (peak), more reliable the reversal.

4. Triangles

Triangles are commonly used to identify reversals and consolidation but are not very reliable formations. Triangles can be symmetrical, ascending and descending.

- **Symmetric Triangle:** This pattern is made up of a series of fluctuations, each of which is smaller than the previous one. Tops do not attain the height of previous tops. Likewise, bottoms are higher than the previous bottoms. Connecting the lower tops that are slanting downwards gives a symmetrical triangle. Similarly, connecting the rising bottoms, which is slanting upwards, gives the lower trendline. In case of a symmetrical triangle, it is not easy to predict the breakout in either way. Symmetrical triangle only indicates the slow down or temporary halt in the direction of the original trend poster therefore it is always possible that the original trend will continue once the triangle is completed. Consider the following diagram.
- **Ascending Triangle:** In this case, the upper trendline is almost a horizontal trendline connecting the tops and the lower trend line is a rising trend line connecting the rising bottoms. if that demand for the script exceeds the supply of it there is a breakout which will be in favor of a bullish trend.
- **Descending Triangle:** In this case, the lower tops form the upper trend line which is a falling one and the lower trendline would be almost horizontal connecting the bottoms. It indicates the support level. In this pattern, the possibility of a downward breakout is very high. It is seen during downtrend.

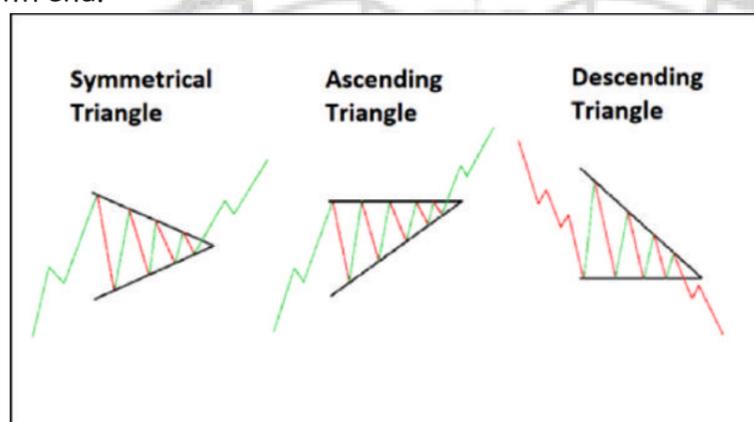


Figure 4: Symmetrical Triangle, Ascending Triangle and Descending Triangle

5. Rectangles

A rectangle is an important pattern representing consolidation, which can be formed either during an uptrend or in the course of a downtrend in prices. A series of minor rallies and reactions, which have almost identical peaks and troughs signal the formation of a rectangle. A rectangle indicates equal pressure being exercised by buyers and sellers, as a result of which the combat is indecisive until - a breakout occurs. The price line may breakout on either side. A rectangle, therefore, may be a consolidation pattern or result in reversal. Just as in the case of the symmetrical triangle, one cannot predict the course of prices when a rectangle is being formed, but has to wait for the breakout.

Consider the following diagram.



Figure 5: Rectangles

Volume is generally relatively high when the rectangle begins to form, and tapers off significantly as the rectangle extends. The breakout is definitely accompanied by a high volume. The breakout from a rectangle is fairly reliable, as prices generally do not return to the rectangle.





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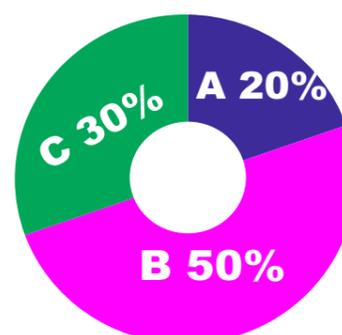
STRATEGIC

COST MANAGEMENT-
DECISION MAKING

(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?

Study Note 6: Application of Operation Research and Statistical Tools in Strategic Decisions Making

➤ Linear Programming Problem

We often apply specific operations research techniques to determine the choice among several courses of action in order to get an optimal value of the measure of performance (objective or goal). This, however, requires formulation of a mathematical model which will help to analyse the decision problem systematically.

Linear Programming Problem (LPP) is one of these widely used methods of operation research that aims to obtain an optimal value, given the limited resources, through an appropriate allocation. It is basically a mathematical technique useful for allocation of 'scarce' or 'limited' resources, to a number of competing activities on the basis of a given criterion of optimality. In other words, it is "a technique for specifying how to use limited resources or capacities of a business to obtain a particular objective, such as least cost, highest margin or least time, when those resources have alternate uses".

• Origin of Linear Programming Problem:

Linear Programming was originally developed by Leonid Kantorovich in 1939. He developed the earliest of the linear programming problems that were used by the army during WWII. It was primarily aimed at solving military logistics problems i.e., to reduce the costs of the army and increase the efficiency in the battlefield. Quite understandably, the method remained as a secret because of its use in war-time strategies. However, it came to the forefront when, in 1947, George B. Dantzig published the simplex method and John von Neuman developed the theory of duality. After WWII, many industries began adopting linear programming for its usefulness in planning optimization.

• Significance of the Term Linear Programming:

The word *linear* refers to linear relationship among the dependent and independent variables in a model. That is, a given change in one independent variable causes a proportional change in a dependent variable. For example, doubling the investment on a certain project may double the absolute return. The word *programming* refers to the mathematical modelling and solving of a problem that involves the use of limited resources, by choosing a particular course of action (or strategy) among the given courses of action (or strategies) in order to achieve the desired goal.

• Application of Linear Programming Problem:

After World War II, LPP is extensively being used in all functional areas of management, airlines, agriculture, military operations, education, energy planning, pollution control, transportation planning and scheduling, research and development, health care systems, etc. Though the applications are varied, the basic propositions of every LP model remain the same.

The following diagram shows some of the major applications of LPP in specific areas.



Figure 1: Applications of LPP

• Assumptions of an LPP:

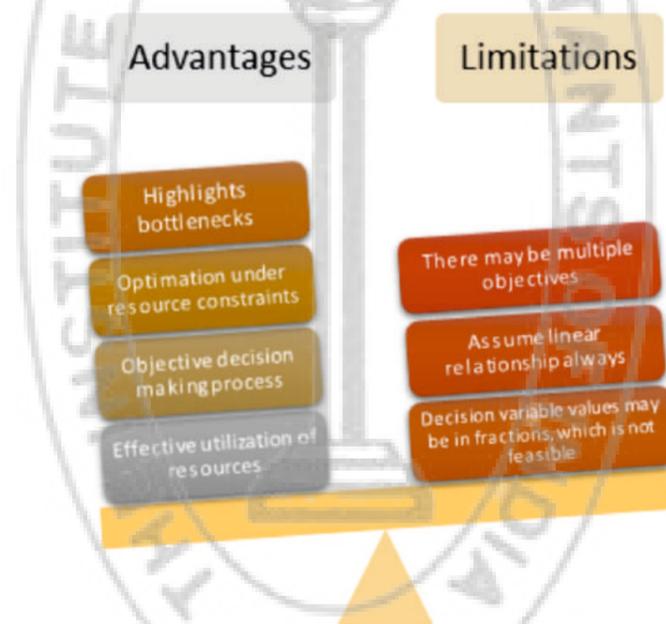
An LP model has four important assumptions as follows:



Figure 2: Assumptions of An LP Model

- (a) *Certainty*: An LP model assumes a deterministic environment with all parameters being constant.
 (b) *Additivity*: An LP model assumes that the contributions of individual decision variables are additive. Similarly, the consumption of resources by the decision variables is also additive.
 (c) *Linearity*: An LP model assumes that there exists a linear relationship between the dependent and independent variables.
 (d) *Divisibility*: An LP model assumes that the decision variables are continuous. In other words, they are divisible and not discrete.

- **Advantages and Limitations of LPP**



- **General Structure of an LP Model**

The general structure of an LP model consists of following two basic components (or parts).

(a) Objective Function: The objective function of each LP problem is expressed in terms of decision variables to optimize the criterion of optimality (also called measure-of-performance) such as profit, cost, revenue, distance etc. Decision variables are the activities, the optimal combination of which is determined through an LP model. For example, for a producer who can produce either of the two products A or B, the decision variables will be the quantity of production of A and Quantity of production of B. Decision variable are denoted by X_1, X_2, \dots, X_n . Accordingly, the objective function may be denoted as:

Optimize (Maximize or Minimize) $Z = C_1 X_1 + C_2 X_2 + C_3 X_3 + \dots + C_n X_n$

where Z is the measure-of-performance variable, which is a function of x_1, x_2, \dots, x_n . Quantities C_1, C_2, \dots, C_n are parameters that represent the contribution of a unit of the respective variable X_1, X_2, \dots, X_n to the measure-of-performance Z.

(b) Constraints: These are the limitations to be taken into account while solving for an optimal solution of the objective function. Constraints are of two types - Functional Constraints and non-negativity constraints.

(i) Functional Constraints: These are also called resource constraints and often represent the limitations in achieving the desired goal or objective. For example, while maximising the profit or sale through production and of two or more products, resource availability may act as a constraint.

(ii) Non-negativity Constraints: The source of these constraint is the very basic nature of the decision variables. In most of the cases, decision variables represent the activities and hence, they cannot assume negative values. For example, in a product mix decision, the number of units of each product to be manufactured cannot be negative.



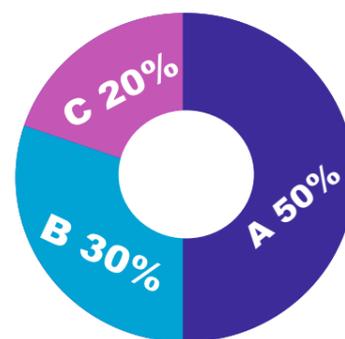
GROUP: iii, PAPER: 16

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 Case Study Analysis 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.

Appeal before ITAT [Sec. 252 to 255]

Appeal against an order of Commissioner (Appeals) lies with the Income Tax Appellate Tribunal (ITAT). Both tax payer and the Assessing Officer can file appeal before the Appellate Tribunal. Several Benches of the Appellate Tribunal constituted all over India by the Central Government and it functions under the Ministry of Law. It consists of as many judicial and accountant members as the Central Government thinks fit to exercise the powers and discharge the functions conferred on the Appellate Tribunal by this Act.

Qualification of members

Member	Qualification
Judicial	<ul style="list-style-type: none"> • He has held a post of Judicial Officer in the territory of India for at least 10 years; or • He has been served as a member of the Indian Legal Service in Grade II post or any higher post for at least 3 years; or • He has been an advocate for at least 10 years.
Accountant	<ul style="list-style-type: none"> • He has practiced as a Chartered Accountant for at least 10 years; or • He has practiced as a registered accountant for at least 10 years; or • He has practiced partly as a registered accountant and partly as a Chartered Accountant for at least 10 years; or • He has been a member of the Indian Income-tax Service, Group A and has held the post of the Additional Commissioner of Income tax or any equivalent or higher post for at least 3 years.

President of the ITAT

- The Central Government shall appoint:
 - a person who is a sitting or retired Judge of a High Court and who has completed not less than 7 years of service as a Judge in a High Court; or
 - one of the Vice-Presidents of the Appellate Tribunal, - to be the President thereof.
- The Central Government may appoint one or more members of the Appellate Tribunal to be the Vice-President(s) thereof.
- The Vice-President shall exercise such of the powers and perform such of the functions of the President as may be delegated to him by the President by a general or special order in writing.

Appealable Orders and Procedure of Appeal

Appealable Orders	A. Appeal by assessee <ol style="list-style-type: none"> 1. An order passed by a Commissioner (Appeals) u/s 154, 250, 270A, 271, 271A, 271J or 272A; or 2. An order passed by a Principal Commissioner or Commissioner u/s 12AA or 12AB [registration of trust], 80G(5)(vi), 263 [revision order], 154, 270A or 271 or 272A; or 3. An order passed by an Assessing Officer u/s 143(3) or 147 or 153A or 153C in pursuance of the directions of the Dispute Resolution Panel or with the the approval of the Commissioner (or Principal Commissioner) as referred to in sec. 144BA(12) or an order passed u/s 154 or 155 in respect of such order. 4. An order passed by an Assessing Officer u/s 115VZC(1) 5. An order passed by the prescribed authority u/s 10(23C)(iv) or (v) or (vi) or (via) 6. An order passed by Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or Principal Director or Director u/s 272A [penalty].
	B. Appeal by the Principal Commissioner or Commissioner The Principal Commissioner or Commissioner may direct the Assessing Officer to appeal against the order passed by the Commissioner (Appeals) u/s 154 or 250 [The Board has directed that the appeal shall be filed by the department only if tax effect exceeds ₹ 50,00,000, subject to certain exceptions]

Time limit for filing appeal	Within 60 days. The period shall start from the date on which order sought to be appealed is communicated to the assessee or Commissioner.
Delay in filing appeal	Tribunal may admit belated application on sufficient cause being shown.
Withdrawal of appeal	An assessee cannot withdraw an appeal filed to Tribunal
Form	Form 36
Documents to be submitted and number of copies thereof	<ol style="list-style-type: none"> 1. Memorandum of Appeal 2. Order appealed against (including one certified copy) 3. Order of Assessing Officer 4. Grounds of appeal before first appellate authority 5. Statement of facts filed before first appellate authority 6. In case, appeal against order levying penalty, relevant order
Fee payable by assessee	<p>Where assessed income as computed by the Assessing Officer is -</p> <ul style="list-style-type: none"> • Upto ₹ 1,00,000 - ₹ 500 • Exceeds ₹ 1,00,000 but does not exceed ₹ 2,00,000 - ₹ 1,500 • Exceeds ₹ 2,00,000 - 1% of Assessed income [Max. ₹ 10,000] <p>Stay petition - ₹ 500</p> <p>Any other case - ₹ 500</p>
Fee payable by CIT	No fees shall be payable in case of appeal by Commissioner
Verification of Form	Form 36 and grounds of appeal should be verified by the person authorized to verify the return of income u/s 140 [Rule 47]
Cross objection	Assessing Officer or the assessee, as the case may be, on receipt of notice that an appeal against the order of the Commissioner (Appeals) has been filed by the other party, may file a memorandum of cross objection with the Tribunal
Time limit for filing of cross-objections	Within 30 days of receipt of notice that appeal has been filed by the other party. However, Tribunal may admit belated memorandum of cross objection on sufficient cause being shown.
Form for filing of cross-objections	Form 36A
Fee for cross objection	Nil
Order of tribunal	<p>The Appellate Tribunal may, after giving both the parties to the appeal an opportunity of being heard, pass such orders as it thinks fit. Tribunal must record its reasons for its decisions. Order should set out all facts and contentions.</p> <p><u>Communication of order:</u> Tribunal shall send a copy of the order passed by it to the assessee and to the Principal Commissioner or Commissioner.</p> <p>Notes:</p> <ol style="list-style-type: none"> a) Decision of Tribunal on matter involving question of fact is final. However, one can file a writ petition. b) A decision of the tribunal, when passed in appeal, is final not only for the assessee but also for the tribunal itself. c) The assessee cannot seek to reopen and reargue the whole matter. i.e. order of Tribunal cannot be reviewed by Tribunal.

	<p>d) On a question of fact determined by ITAT, a writ petition can be filed to the High Court challenging the fact finding process adopted by the ITAT. If the High Court is satisfied that the fact finding process was not correct, then it will quash the order passed by the ITAT and direct the ITAT to do the fact finding in the proper manner and/or as per the direction of the High Court.</p> <p>If the writ petition is dismissed by the High Court then the assessee can file a Special Leave Petition to the Apex Court challenging the fact finding process of the ITAT. If the Apex Court is satisfied that the fact finding process was incorrect then the Apex Court quash the order passed by the ITAT and direct the ITAT to do the fact finding in the proper manner and/or as per the direction of the Apex Court.</p>
Rectification of mistake (Miscellaneous Application)	<ul style="list-style-type: none"> The Tribunal may, at any time within 6 months from the end of the month in which the order was passed, with a view to rectify any mistake apparent from the record, amend any order passed by it. Mistake may be brought to the notice of the Tribunal by the assessee or the Assessing Officer. Where assessee applies for any rectification, it shall be accompanied by a fee of ₹ 50. An amendment which has the effect of enhancing an assessment or reducing a refund or otherwise increasing the liability of the assessee, shall not be made unless the Appellate Tribunal has given notice to the assessee of its intention to do so and has allowed the assessee a reasonable opportunity of being heard. It is to be noted that income tax authority [including CIT(A)] can rectify order u/s 154, however in that case: <ol style="list-style-type: none"> Assessee is not required to pay any fee; and Time limit is 4 years from the end of the financial year in which the order sought to be rectified was passed.
Additional grounds which may be taken in appeal	<p>Tribunal has discretionary power to refuse additional ground to be raised.</p> <p>Tribunal may permit the assessee to urge grounds of appeal not mentioned in the memorandum of appeal.</p>
Additional evidence	<p>The parties to the appeal are not entitled to produce additional evidence of any kind, either oral or documentary before the Tribunal. However, if the Tribunal requires production of any document, examination of any witness or filing of any affidavit to enable it to pass orders, it may allow such document to be produced, witness to be examined, affidavit to be filed and such evidence to be adduced.</p>
Time limit for passing order	<p>Appellate Tribunal, where it is possible, may hear and decide such appeal within a period of 4 years from the end of the financial year in which such appeal is filed.</p> <p>However, the Tribunal, after considering the merits, may pass an order of stay in any proceedings for a period not exceeding 180 days (provided the assessee deposits not less than 20% of the amount of tax, interest, fee, penalty, or any other sum payable or furnishes security of equal amount in respect thereof) from the date of such order and the Tribunal shall dispose of the appeal within the said period of stay specified in that order.</p> <p>However, no extension of stay shall be granted by the Appellate Tribunal, where such appeal is not so disposed of within the said period of stay as specified in the order of stay, unless the assessee makes an application and has complied with the condition and the Appellate Tribunal is satisfied that the delay in disposing of the appeal is not attributable to the assessee, so however, that the aggregate of the period of stay originally allowed and the period of stay so extended shall not exceed 365 days and the Appellate Tribunal shall dispose of the appeal within the period or periods of stay so extended or allowed.</p> <p>Further if such appeal is not so disposed of within the period allowed (original and extended), the order of stay shall stand vacated after the expiry of such period (i.e., 365 days), even if the delay in disposing of the appeal is not attributable to the assessee.</p>
Cost of appeal	<p>Cost of appeal shall be borne by the person as decided by the Tribunal.</p>
Procedure	<ul style="list-style-type: none"> The powers and functions of the Appellate Tribunal may be exercised and discharged by Benches constituted by the President of the Appellate Tribunal from among the members thereof. A Bench shall consist of one judicial member and one accountant member. However, in some case, single member bench may be constituted. The President or any other member of the Appellate Tribunal authorised in this behalf by the Central Government may, sitting singly, dispose of any case which has been allotted to the Bench of which he is a member and which pertains to an assessee whose total income as computed by the Assessing Officer in the case does not exceed ₹ 50lakh. The President may, for the disposal of any particular case, constitute a Special Bench consisting of 3 or more members, one of whom shall necessarily be a judicial member and one an accountant member. If the members of a Bench differ in opinion on any point, the point shall be decided according to the opinion of the majority. But if the members are equally divided, then the case shall be referred by the President of the Appellate Tribunal for hearing on such point by one or more of the other members of the Appellate Tribunal, and such point shall be decided according to the opinion of the majority of the members of the

	Appellate Tribunal who have heard the case, including those who first heard it.
Faceless	<p>The Central Government may make a scheme, for the purposes of appeal to the Appellate Tribunal, so as to impart greater efficiency, transparency and accountability by:</p> <ol style="list-style-type: none"> optimising utilisation of the resources through economies of scale and functional specialisation; introducing a team-based mechanism for appeal to the Appellate Tribunal, with dynamic jurisdiction. <p>The Central Government may, for the purpose of giving effect to the scheme, direct (within 31-03-2022) that any of the provisions of this Act shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified</p>

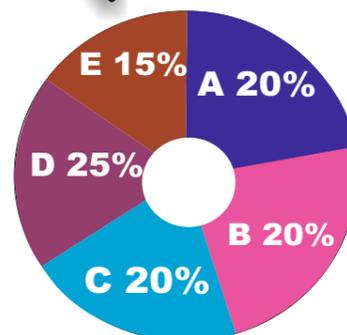




GROUP: iv, PAPER: 17
CORPORATE
FINANCIAL REPORTING
(CFR)

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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.

Corporate Financial Reporting

Accounting of Finance Lease in the books of the Lessor under Ind AS 116 Leases

In this issue we shall discuss an illustration on accounting of leases under Ind AS 116 in the books of the lessor.

Illustration:

Lessor Y leases out an equipment (carrying amount Rs. 1,36,000 having 5 years life) to Lessee X for 3 years for annual payment of Rs. 50,000 (at the end of every year) and residual value of Rs. 50,000, guaranteed by X up to loss of Rs. 30,000. Interest rate implicit in lease payments is 10%. At the end of the lease the equipment is valued at Rs. 33,000. Show accounting of lease classified as finance lease in books of Y. The rate of interest income on the net investment in lease, however, is 19.274%.

Solution:

In the books of Y

Working notes:

(a) present value of lease receivable = Rs. 1,46,882 (Amount in Rupees)

Year	Payments Rs.	Disc. Factor	DCF at 10% Rs.
1	50,000	0.909091	45,454.55
2	50,000	0.8264462	41,322.31
3	50,000	0.7513148	37,565.74
3	Guaranteed 30,000	0.7513148	22,539.44
Present value			1,46,882

(b) Deferred selling profits at inception:

Revenue = Present value of lease receivable	Rs.1,46,882
Cost of goods sold = Rs.1,36,000 - Rs.15,026 (Carrying amount - Present Value of Unguaranteed residual*)	Rs.1,20,974
Deferred selling profits at inception	Rs.25,908

*Rs.20,000 × 0.7513 = Rs.15,026

(c) Net Investment in Lease at inception = Present value of lease receivable + P. V. of Unguaranteed residual - Deferred selling profits = Rs.(1,46,882 + 15,026 - 25,908) = Rs. 1,36,000 = Carrying amount of the underlying asset.

(d) Interest income on net investment in lease (19.274%) includes interest on the lease receivable, accretion of the unguaranteed residual value and amortisation of deferred selling profit.

Interest Income	Rs.
Net Investment in Lease	1,36,000
Add Interest Income @ 19.274% = Rs.1,36,000×19.274%	26,213
Total	1,62,213
Less Payment	50,000
Balance at the end of year 1	1,12,213
Add Interest Income @ 19.274% = Rs.1,12,213×19.274%	21,628
Total	1,33,841
Less Payment	50,000

Balance at the end of year 2	83,841
Add Interest Income @ 19.274% = Rs.83,841×19.274%	16,159
Total	1,00,000
Less Payment	50,000
Less Payment for Guaranteed loss borne by Lessee	17,000
Returned at residual value at the end of year 3	33,000

Journal:

(Amount in Rupees)

Date	Particulars	Dr. Rs.	Cr. Rs.
At the inception	Net Investment in Lease To, PPE A/c	Dr. 1,36,000	1,36,000
At the end of year 1	Bank A/c To, Interest Income A/c To, Net Investment in Lease [50,000 - 26,213]	Dr. 50,000	26,213 23,787
At the end of year 2	Bank A/c To, Interest Income A/c To, Net Investment in Lease	Dr. 50,000	21,628 28,372
At the end of year 3	Bank A/c To, Interest Income A/c To, Net Investment in Lease	Dr. 50,000	16,159 33,841
	PPE A/c Bank A/c To, Net Investment in Lease	Dr. Dr.# 33,000 17,000	50,000

Residual Value = Rs.33,000. Loss = Rs.50,000 - Rs.33,000 = Rs.17,000 borne by lessee (guaranteed by lessee up to Rs. 30,000)

Profit and Loss	Year 1	Year 2	Year 3
Interest Income (Rs.)	26,213	21,628	16,159

Balance Sheet	At inception Rs.	At the end of Year 1 Rs.	At the end of Year 2 Rs.	At the end of Year 3 Rs.
Net Investment in Lease	1,36,000	1,12,213	83,841	0
PPE	(1,36,000)			+33,000
Cash				+17,000

Statement of Cash Flows	At the end of Year 1	At the end of Year 2	At the end of Year 3
Cash from investing activities	50,000	50,000	50,000
Cash from investing activities			17,000

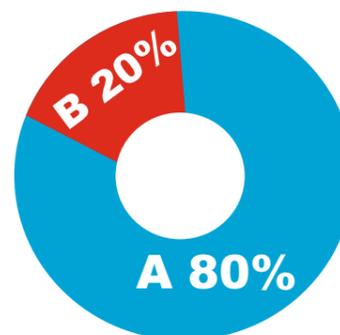


GROUP: iv, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives -

Through the following MCQ, students can refresh themselves about

- GST charged by second hand goods dealer
- Place of supply as directed by third party
- Services for various purpose
- Place of supply for different person
- OIDAR services
- Utilization of ITC
- Restriction on utilization of ITC

INDIRECT TAX

Choose the correct option from the followings -

1. When a registered second hand goods dealer supplies second hand goods, the dealer is liable to charge GST on the second hand goods - in this regard which of the following statement is correct
 - (a) GST will be levied only on the margin sale value
 - (b) GST will be levied on the margin if it is negative then only on purchase value
 - (c) GST will be levied on the margin after deducting 5% per quarter from the date of disposal
 - (d) GST will be levied on the transaction value of second hand goods
2. As per Sec 10(1)(b) of the IGST Act goods delivered on the direction of third person the Place of Supply will be -
 - (a) Place where movements terminates for delivery to recipient.
 - (b) Principal place of business of third person
 - (c) Location of goods at the time of delivery to the recipient
 - (d) Location where goods are taken board
3. Which of the following will not be considered service by way of lodging accommodation under Sec 12(3)(b) of IGST Act, 2017
 - (a) Club
 - (b) Home stay
 - (c) House boat
 - (d) Hostel
4. Services in relation to training and performance appraisal provided to an unregistered person the place of supply of service will be -
 - (a) Location where the service actually performed
 - (b) Office of the service provider
 - (c) Location of recipient of service
 - (d) Registered address of the recipient
5. Place of supply for Post Paid Telecommunication services will be
 - (a) Location where the line is installed
 - (b) Billing address
 - (c) Location where voucher are sold
 - (d) Address of the local office
6. Place of supply in case of services provided by way of electronic means in relation to tangible goods
 - (a) Registered address of the service provider
 - (b) Location where the services are actually performed
 - (c) The actual location of the goods
 - (d) Recipient registered office
7. Place of supply in case of services provided by a financial company
 - (a) Location of the service provider
 - (b) Location of the recipient of service
 - (c) Where the actual service been provided
 - (d) Registered address of recipient
8. Which of the following will not be considered as OIDAR services

- (a) Online supplies of digital contents (movies, television shows, music etc)
- (b) Supplies of goods where the order and processing is done electronically
- (c) Digital data storage
- (d) Online gaming

9. In case of B2C services other than OIDAR service (cross border) will be

- (a) Taxable supply
- (b) Exempted supply
- (c) Tax to be payable on reverse charge
- (d) Tax to be payable on forward charge

10. Which of the below mentioned will be exempted supply as per Sec 2(47) of the CGST Act, 2017

- (a) Which may be wholly exempt from tax under Section 11
- (b) Under Section 6 of the Integrated Goods and Service Tax Act
- (c) Includes non taxable supply
- (d) Where no tax is payable

11. ITC of SGST of inward supply can be utilized with the outward supply

- (a) Ist CGST next IGST
- (b) Ist SGST next CGST
- (c) Ist SGST next IGST
- (d) Ist IGST next SGST

12. As per 2nd proviso to Sec 16(2) of CGST Act, 2017 payment of invoice to be made from the date of issue of invoice by the supplier within

- (a) 90 days
- (b) 120 days
- (c) 150 days
- (d) 180 days

13. On the basis of which of the following document the Input Tax Credit shall not be availed by a registered person

- (a) An invoice issued under reverse charge
- (b) An invoice issued under forward charge
- (c) A debit note
- (d) A Bill of Entry

14. As per notification no 55/2017 Central Tax the aggregate value of exempt supplies shall exclude the supply of service against payment in Indian Rupee having place of supply

- (a) Bangladesh
- (b) Sri Lanka
- (c) Nepal or Bhutan
- (d) SAARC countries

15. Presently the useful life of any capital goods shall be considered from the date of invoices as

- (a) Three years
- (b) Four years
- (c) Five years
- (d) Six years

16. As per notification 75/2019 w.e.f. 01.01.2020 ITC that can be availed on invoice not uploaded by Supplier in GSTR - 1 is

- (a) 10%
- (b) 20%
- (c) 30%
- (d) 50%

17. According to Rule 86A of the CGST Rules which of the following will not be considered to the Restriction on Utilisation of ITC

- (a) ITC has been availed on the basis of tax invoice without receipt of goods or services or both
- (b) Registered person availing ITC has been found conducting any business from the registered place of business
- (c) ITC has been availed on the basis of the invoice, the tax in relation to which has been paid to Government
- (d) Registered person availing ITC is not in possession of tax invoice

18. In which of the following case ITC will be allowed

- (a) Outdoor catering

- (b) Beauty treatment
- (c) Cosmetic and plastic surgery
- (d) Works contract services for supply of construction of plant and machinery

19. In which of the following situation ITC will be allowed

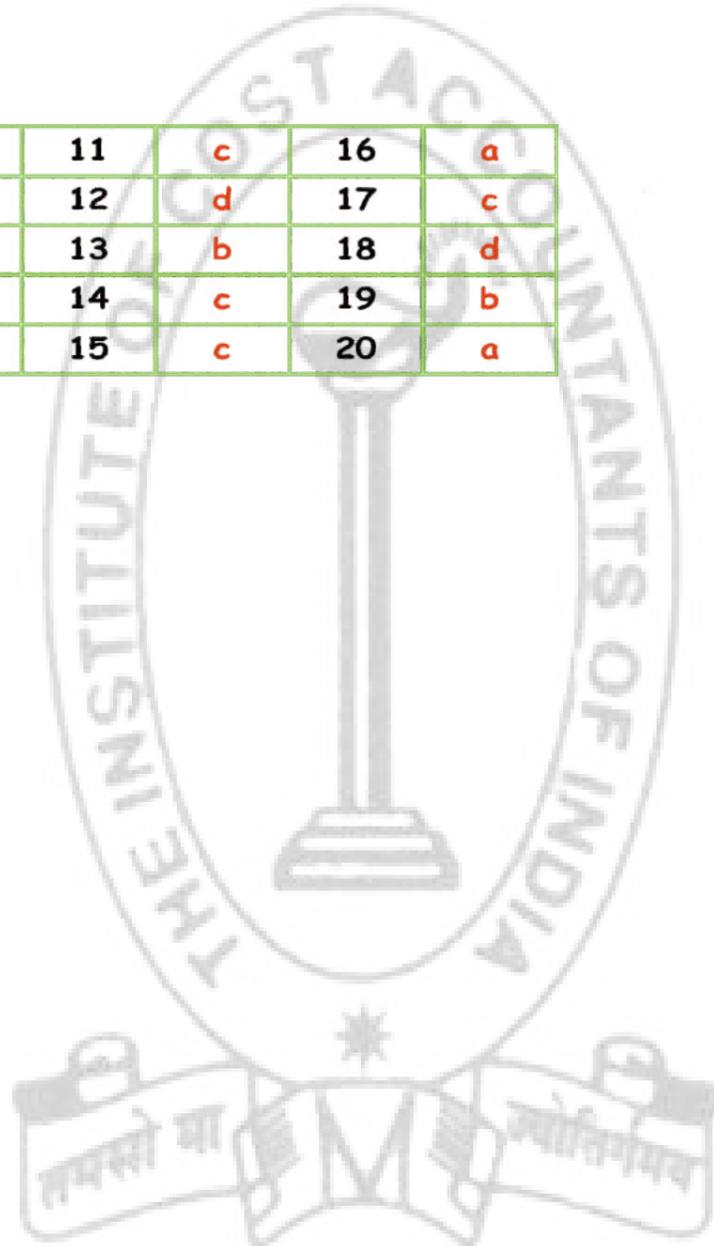
- (a) Cement is used for construction of administration building
- (b) Cement is used for foundation of pillars supporting a boiler
- (c) Steel and other structural support are used for land, building
- (d) GST paid on parts of telecommunication tower or parts of pipelines

20. In which of the below mentioned situation ITC of input supplies need not to be reversed on event of subsequent occurrence

- (a) Recipient of supply Doesn't pay to the supplier within 120 days of issue of the invoice.
- (b) Recipient of supply uses input goods/services for supplying exempted supplies
- (c) Recipient of supply uses capital goods for any purpose other than business or for supplying exempted supplies
- (d) A person sells Capital good or Plant and machinery [u/s 18(6)].

ANSWERS

1	d	6	c	11	c	16	a
2	b	7	a	12	d	17	c
3	d	8	b	13	b	18	d
4	a	9	b	14	c	19	b
5	b	10	d	15	c	20	a



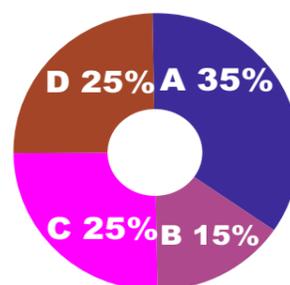


GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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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

Standards on Cost Auditing - Its importance and implication

Cost audit is an independent examination of cost records maintained by the company. The cost records are to be maintained by the company following the Cost Accounting Standards as well as the principles prescribed in CRA - 1, which are mandatory for the companies as prescribed in Rule - 3 of Companies (Cost Records and Audit) Rules, 2014. Cost Accounting Standards lay down the requirements for treatment of various cost elements, minimum disclosure requirements and ensure the comparability, consistency, and completeness of cost accounting records.

The Cost Auditor appointed as per Provisions of section 148 of The Companies Act, 2013, for the audit of the cost records, has to abide by the Cost Auditing Standards while carrying the cost audit of the Company. The report of the cost auditor given in Form - CRA 3 in pursuant to Rule 6(4) of Companies (Cost Records and Audit) Rules, 2014, must be in "compliance to the cost auditing standards" issued by The Institute of Cost Accountants of India with the approval of the Central Govt. Therefore, it is mandatory for the Cost Auditor to understand and follow the Cost Auditing Standards, while conducting the cost audit, as default in complying with the provisions make the cost auditor liable for punishment. The Companies Act, 2013 has prescribed penalties for the auditor as per section 143 (13) for an amount of Rupees 1 lakh to Rupees 25 Lakhs for which all the partners are severally and jointly liable.

Cost Auditing Standards provides the guidelines and procedures to be followed by the Cost Auditor during the conduct of Cost Audit. It ensures maintenance of the professional integrity, quality of audit and compliance of procedure and reporting.

There are four (4) Cost Auditing Standards so far made mandatory by the Ministry of Corporate Affairs. Another 15 Cost Auditing Standards are finalized by the Cost Auditing Standards Board and are forwarded to the Ministry of Corporate Affairs for approval. The first four standards are effective for audits on or after September 11, 2015. Each Auditing Standards provides its application guidance. The four Cost Auditing Standards with their essential characters are described below.

Cost Auditing Standard - 101 - Cost Auditing Standard on Planning an Audit of Cost Statements

- This Standard deals with the auditors' responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.
- The Cost Auditor shall consider all relevant factors. These relevant factors include:
 - (a) Results of preliminary activities such as-letter of appointment and legal formalities regarding his appointment
 - (b) Knowledge from previous audits and other engagements with the auditee.
 - (c) Knowledge of business
 - (d) Nature and scope of the audit
 - (e) Statutory deadlines and reporting format
 - (f) Relevant factors determining the direction of the audit efforts
 - (g) Nature, timing and extent of resources required for the audit.
- The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work. Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
- The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes.

Cost Auditing Standard - 102 - Cost Auditing Standard on Cost Audit Documentation

- The objective of this Standard is to guide the members to prepare documentation that provides:
 - (a) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and
 - (b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.
- The cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached. The documentation usually contains checklists (of compliance with relevant rules), audit programs of verification of each cost elements (Material cost, Employees cost, Repairs Cost etc.), analysis for true & fair view of costs, audit query list, letters of conformation.
- Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.
- The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:
 - (a) Conformance of audit procedures performed with legal and regulatory requirements;
 - (b) Conformance to Cost Auditing Standards

- (c) The results of audit procedures performed
- (d) The audit evidence obtained
- (e) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders in manner of minutes of discussion with persons involved with the management of the company and the third parties in relation to the audit.
- The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard.

Cost Auditing Standard - 103 - Cost Auditing Standard on Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards

- The Cost auditor's overall objectives are to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the Cost of a product, activity or service.
- The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
- The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.
- The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion
- The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder
- An attitude of professional scepticism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof.
- The cost auditor is responsible for forming and expressing an opinion on the Cost Statements.

Cost Auditing Standard - 104 - Cost Auditing Standard on Knowledge of Business, its Processes and the Business Environment

- This standard deals with obtaining the knowledge of the client's business, its processes and business environment to develop a reasonable assurance in order to express an opinion on the cost statements
- The cost auditor should obtain an understanding of the nature of the entity, relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework, the entity's selection and application of cost accounting policies, internal controls relevant to the audit.
- The cost auditor shall identify and assess the risks of material misstatement at the cost statement level.
- While understanding controls that are relevant to the audit, cost auditor should evaluate the design of those controls and determine whether they have been implemented properly, by performing procedures in addition to discussions with the entity's personnel.
- The cost auditor should understand the related cost accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred primarily to the accounting system and subsequently to cost accounting statement.

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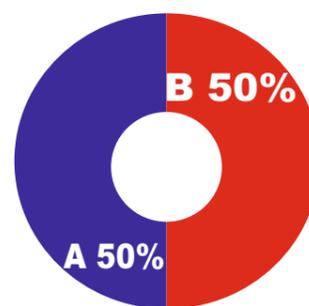
GROUP: iv, PAPER: 20

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 H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Strategic Performance Management and Business Valuation

Choose the correct option from amongst the four alternatives given:
(Each question carries 1 mark)

- The necessary condition for equilibrium position of a firm is-
 - $MC > MR$
 - $MC > Price$
 - $MC = MR$
 - $MC = AC$
- In the context of an acquisition of a firm, which one of the following concepts of value is least relevant?
 - Market Value
 - Opportunity Cost
 - Synergy Value
 - Value Gap
- Which of the following is a measure of value of which tells whether a company is able to generate returns that exceed the costs of capital employed?
 - Cost of Capital
 - Market Value Added
 - Economic Value Added
 - Financial Profit
- Who has prompted the phrases, –Zero Defects?
 - Walter A Shewhart
 - Philip Crosby
 - Peter Drucker
 - F. W. Taylor
- According to model developed by Altman in 1968, which of the following is not the selected ratio for corporate distress prediction?
 - Working Capital to Total Assets
 - Retained Earnings to Total Assets
 - Sales to Total Assets
 - Book value of Equity/ total liabilities

Answers:

Question No	(1)	(2)	(3)	(4)	(5)
Answer	(d)	(b)	(c)	(b)	(d)

Section B
Each question carries 1 mark.

1.	The risk-free rate = 5.5%, the market price of risk = 7%, the company's beta = 1.2, what is the Cost of equity?
Answer	13.9% Cost of Equity = 5.5% + 7% (1.2) = 13.9%

2.	K Ltd. earned free cash flow to Equity Shareholders during the financial year ending 2018 at ₹ 4.5 lakhs and its cost of equity is 13% with a projected earnings growth rate of 10%. The market value of debt is ₹ 50 lakhs. Calculate the value of firm as per constant Growth Valuation Model.
Answer	(v) (D) ₹ 1,65,00,000. According to the constant growth valuation model, $V_0 = (FCFF)_1 / (K_e - g)$ Where $(FCFF)_1 = FCFF_0(1+g)$ $V_0 = 4,50,000 \times 1.10 / (0.13 - 0.10)$ $V_0 = 495000 / 0.03$ $V_0 = ₹ 1,65,00,000.$
3.	What is Risk Mapping?
Answer	Risk mapping is the process of identifying, quantifying and prioritizing the risks that may interfere with the achievement of organizational objectives. Its aim is to arrive at a clear set of action plans that improve risk management controls, in areas where these are necessary and help the management of the organization's direct resources.
4.	The Average Cost of a firm is given by the function Average Cost = $x^3 + 12x^2 - 11x$, what is the marginal cost?
Answer	Average Cost = $x^3 + 12x^2 - 11x$ Total Cost (C) = $x^4 + 12x^3 - 11x^2$ Marginal Cost = $dc/dx = 4x^3 + 36x^2 - 22x.$
5.	What is Supply Chain Management?
Answer	Supply Chain Management encompasses the planning and management of all activities involved in sourcing, procurement, conversion and logistics management activities. It also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers.

Section C

Problem 1

A Ltd., is considering the acquisition of B Ltd., with stock. Relevant financial information is given below:

Particulars	A Ltd.	B Ltd.
Present earnings (₹)	7.5 Lakhs	2.5 Lakhs
Equity (no. of shares)	4.0 lakhs	2.0 Lakhs
EPS (₹)	1.875	1.25
P/E ratio	10	5

Based on the above information answer the following questions:

- (i) **What is the market price of each company?** 2 marks
Answer:
 $P/E = \text{Market Price} / \text{EPS}.$
Therefore we have, $\text{Market Price} = P/E \times \text{EPS}$
A Ltd.'s Market Price = $10 \times 1.875 = ₹ 18.75.$
B Ltd.'s Market Price = $5 \times 1.25 = ₹ 6.25$
- (ii) **Calculate market Capitalization of each company.** 2 marks
Answer:
 $\text{Market Capitalization} = \text{Number of outstanding shares} \times \text{market price}$
A Ltd.'s Market cap = $4.0 \text{ lakhs} \times ₹ 18.75 = ₹ 75 \text{ Lakhs}$
B Ltd.'s Market cap = $2.0 \text{ Lakhs} \times ₹ 6.25 = ₹ 12.5 \text{ Lakhs}.$
- (iii) **If the P/E of A Ltd., changes to 7.5. What is the market price of A Ltd.?** 2 marks
Answer:
If the P/E of A Ltd., changes to 7.5, then the market price is given by = $7.5 \times ₹ 1.875 = ₹ 14.0625.$
- (iv) **Does market value of A Ltd., change?** 2 marks
Answer: Yes. The market value decreases, i.e., = $A \text{ Ltd.'s market value} = 4.0 \text{ lakhs} \times ₹ 14.0625 = ₹ 56.25 \text{ Lakhs}$
- (v) **What would be the exchange ratio based on Market Price? (Take the revised price of A Ltd.)** 2 marks

Answer: General Formula for exchange ratio = $\text{MPS of Target Firm} / \text{MPS of acquiring Firm}$

$$= 6.25/14.0625 = 0.44.$$

Problem 2

The following information is provided related to the acquiring firm P Ltd. and the target firm Q Ltd:

Particulars	P Ltd.	Q Ltd.
Profit after tax (PAT) (₹)	2,000 Lakhs	400 Lakhs
Number of Shares outstanding	200 Lakhs	100 Lakhs
P/E ratio	10	5

Based on the above information answer the following questions:

(i) Calculate the swap ratio based on current market price.

2 marks

Answer:

EPS before acquisition:

P Ltd. ₹ 2,000 lakhs/200 lakhs = ₹ 10 and

Q Ltd. ₹ 400/100 = ₹ 4

Market price of share before an acquisition = EPS × PE ratio:

P Ltd. ₹ 100 and

Q Ltd. ₹ 20

Swap ratio based on current market prices: ₹ 20/₹ 100 = 0.2 that is one share of P Ltd. for 5 shares of Q Ltd.

Number of shares to be issued 100 lakhs × 0.2 = 20 lakhs

(ii) What is the EPS of P Ltd. after acquisition?

2 marks

Answer: EPS after acquisition = (2000 lakhs + 400 lakhs) ÷ (200 lakhs + 20 lakhs) = ₹ 10.91

(iii) What is the expected market price per share of P Ltd. after acquisition, assuming P/E ratio of P Ltd. remains unchanged?

2 marks

Answer: Expected market price per share of P Ltd. after an acquisition after assuming PE ratio of P Ltd. remains unchanged is ₹ 10.91 × 10 = ₹ 109.10

(iv) Determine the market value of the merged firm.

2 marks

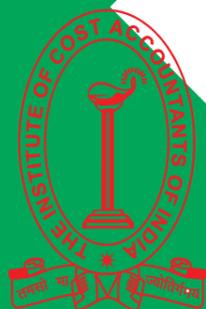
Answer: Market value of Merged Firm = ₹ 109.10 × 220 lakh shares = ₹ 240.02 crore

(v) Calculate gain/loss for shareholder of the two independent companies after acquisition.

2 marks

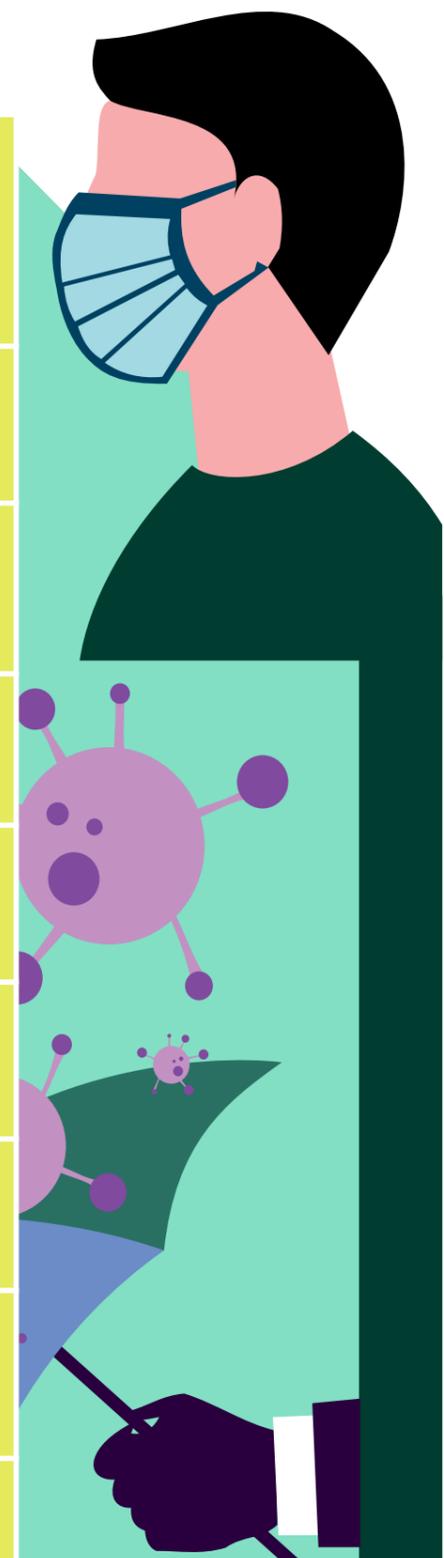
Answer: Gain from the merger: Post merger market value of merged firm 240.02 Crore (minus pre-merger market value of both firms i.e. ₹ 200 crore and ₹ 20 crore) = (240.02 - 220.00) = ₹ 20.02 crore

Gain to shareholders of both the firms:	P Ltd. (₹)	Q Ltd. (₹)
Post-merger value	218.20	21.80
Less: Pre-merger value	200.00	20.00
Gain to shareholders	18.20	1.82

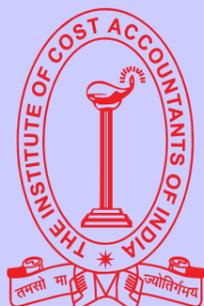


Examination TIME TABLE

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
08th December, 2021 (Wednesday)	Corporate Laws & Compliance (Paper 13) (Group - III)
09th December, 2021 (Thursday)	Corporate Financial Reporting (Paper 17) (Group - IV)
10th December, 2021 (Friday)	Strategic Financial Management (Paper 14) (Group - III)
11th December, 2021 (Saturday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
12th December, 2021 (Sunday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
13th December, 2021 (Monday)	Cost & Management Audit (Paper 19) (Group - IV)
14th December, 2021 (Tuesday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
15th December, 2021 (Wednesday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)



STAY HOME STAY SAFE



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, Attend
Webinar sessions**

**Solve Exercises
given in Study Note**

02

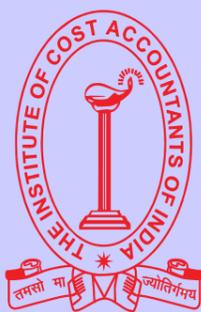
03

Assess Yourself

Appear For Examination

04

FINISHED



SUBMISSIONS



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.

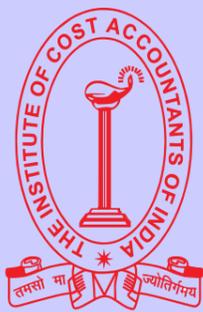
Please put your opinions so that we can make your e-bulletin everything that you want it to be.

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

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.



Message from Directorate of Studies

Dear Students,

Passing the exam is a happy event. Congratulations on all that you have accomplished! There is no secret of success. It is the result of preparation, hard work and learning from failure. Well done! It is clear that the future holds great opportunities for you.

Those who could not pass, failing in an exam does not mean failing in life. All of us face failure at one time or another. Try to focus your attention on the importance of perseverance and mind it that dedication and determination plays the lead role in shaping a person's life.

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, Mock Test Papers (MTPs), Work Books, MCQs and we have conducted Webinar sessions.

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:

"You must be the Change you wish to see in the World",

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 link mentioned below :

<https://icmai.in/studentswebsite>

- Don't give up
- Don't give in
- Don't give out
- You can win!

The Institute is pleased to inform that the University Grants Commission (UGC) Ministry of Education, Govt. of India has announced that CMA qualification be Considered equivalent to PG Degree.

GOOD LUCK

Be Prepared and Get Success;

Disclaimer:

Although due care and diligence have been taken in preparation and uploading this E-bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-bulletin.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

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The Institute of Cost Accountants of India is a premier professional Institute and a statutory body constituted under an Act of Parliament under the administrative control of **Ministry of Corporate Affairs (MCA), Govt. of India** to regulate and develop the profession of Cost and Management Accountancy (CMA) in the country. The Institute established in **1944** is now celebrating the **Platinum Jubilee year** of its glorious presence.

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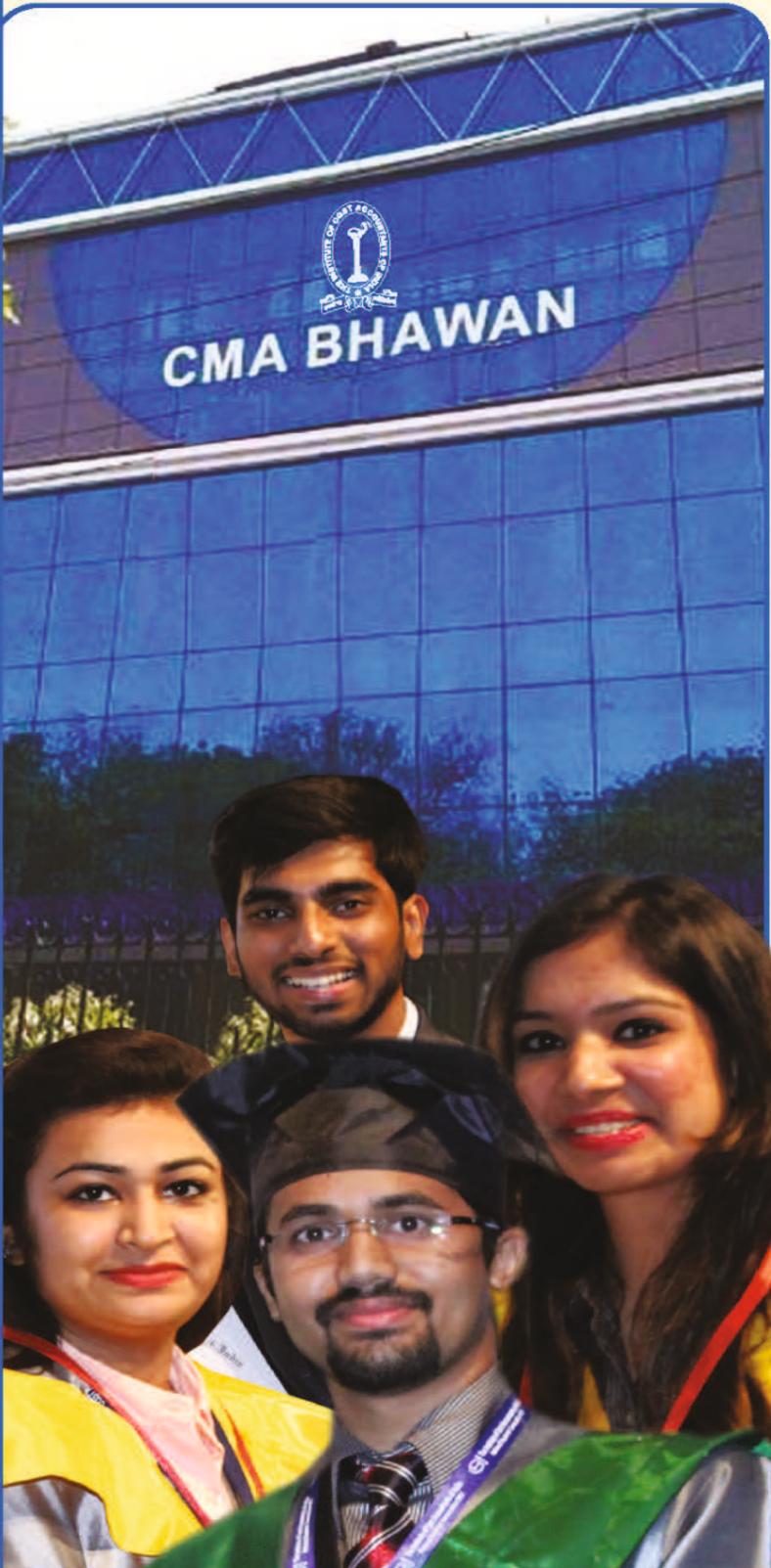
Few of Our Proud Recruiters



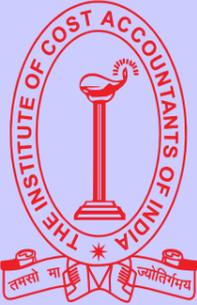
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Behind every successful business decision, there is always a **CMA**



Few Snapshots



Glimpses of the Child Literacy Program organised by the Institute to commemorate Azadi Ka Amrit Mahotsav on 24.09.2021 at CMA Bhawan, New Delhi.



Glimpses of Swachhta Abhiyan program organised by the Institute to commemorate Azadi Ka Amrit Mahotsav on 01.10.2021 at CMA Bhawan, New Delhi.



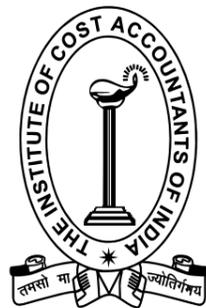
CMA P. Raju Iyer, Vice-President along with CMA Neeraj Joshi, Council Member of the Institute and CMA B.B. Goyal, Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI, extending greetings to Shri Arun Goel, IAS, Secretary to the Government of India, Ministry for Heavy Industries during a meeting on 1st October, 2021 to submit a detailed representation relating to Cost Audit in the notified PLI Scheme for Automotives and Auto Components.



CMA (Dr.) Ashish P. Thatte, Chairman, Corporate Laws Committee along with CMA Neeraj D. Joshi, Chairman, Management Accounting Committee extending greetings to Shri Narayan Tatu Rane, Hon'ble Union Minister for Micro, Small and Medium Enterprises on 2nd August, 2021



CMA P. Raju Iyer, Vice President along with CMA Chittaranjan Chattopadhyay, Chairman BFSI Board & Indirect Taxation Committee of the Institute and CMA B.B. Goyal, Advisor, ICWAI MARF & Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI extending greetings to CMA (Dr.) Manoj Anand, Whole Time Member (Finance), Pension Fund Regulatory and Development Authority (PFRDA) on 25.08.2021.



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