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YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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Behind every successful business decision, there is always a CMA

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Message from The Chairman

CMA Biswarup Basu
Vice President & Chairman, Training & Education Facilities and Placement Committee

MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!

"The weak can never forgive. Forgiveness is the attribute of the strong"-M.K. Gandhi

Time is passing on its natural pace. The world is facing an unexpected tremor due to COVID19. We are in a very curtail position. In spite of a long drawn 'lockdown' strategy taken by the Central and State Government this pandemic is engulfing the word day by day. Though we are human beings, and we must keep in mind that "the brook" which says "men may come and men may go, but I go on forever" and it is true a civilization cannot stop. It is a request to our students to carry on their academic development towards the rejuvenation of the society the country and the world at large. **Stay safe, keep social distancing and always follow the required precautionary measures for the wellbeing of all.**

The Directorate of Studies is always with the students to help students carry on their study. Live Webinars are getting conducted regularly with the recorded webinars which are already in the e-library, answers to the Mock Test Papers (MTPs) are almost all uploaded, updated Work Books and monthly E-bulletins are also being uploaded on our website. Being the Chairman of Training & Education Facilities and Placement Committee, I am really thankful to all the academicians and industrial personnel. Requesting all the students to grab the opportunities being offered by the Directorate of Studies.

Always keep hope in your mind and move on with strength to overcome the fiercest of the challenges. Always keep in mind that, ***"The future depends on what we do in the present".***

Best wishes as always,

CMA Biswarup Basu
Chairman, Training & Education Facilities and Placement Committee

Be a CMA, be a Proud Indian

Stay Home Stay Safe

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150 YEARS OF CELEBRATING THE MAHATMA

CONTENTS

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150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE Update

#stayhome #staysafe

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: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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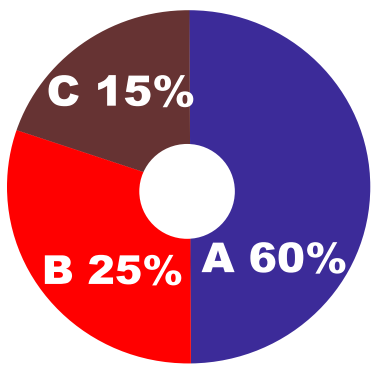
Your Preparation Quick Takes



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.

DIVIDEND

1.0 Concept and definition of dividend

(a) Dividend is the part of profit which is to be declared at AGM as recommended by the Board of Directors. The shareholders can not declare a percentage of dividend excess than the percentage recommended by the Board. Issue of bonus shares shall not be considered as divided and therefore issue of bonus shares cannot be taken as a restriction on payment/ reduction of dividend.

(b) " interim dividend" is a dividend which may be declared by the Board of Directors before AGM on the basis of estimated financial results of the company. The interim dividend shall be ratified in AGM. The Company may further declare dividend which will be called as final dividend. Other rules and procedures shall be same that of dividend.

2.0. Right to dividend

(a) Every shareholder whose name appears as on a record date, shall be entitled to dividend. In case of a listed company, the record date shall, have to be notified by newspaper notification.

(b) Where there is dispute in transfer after the transfer documents have been submitted to the company, the dividend shall be transferred to unpaid divided account.

(c) Any rights/ bonus shares entitlement shall be kept in abeyance(pending) in case of any such dispute.

3.0. Source and amount of dividend:

(i) Dividend shall be declared only out of profits of the current financial year for which it is intended to be declared or out of the profits of previous years.(profit earned other than through unrealized gains/ notional gains/ revaluation of assets shall not be considered)

(ii) Dividend to be paid out of profits only after fulfilling the provisions of depreciation for the year and accumulated depreciation of previous years. Provision shall have to be made for income tax.

(iii) Previous years' losses, if any, has to be adjusted.

(iv) Dividend can also be pay out of funds provided by Central / State Govt .(normally for Govt. companies but hardly happens in reality)

From the net profit, a percentage may be transferred to reserves, as decided by Board.

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

Under the rules framed by the Central Government, in the event of inadequacy or absence of profit the company can declare dividend out of reserves subject to following conditions ;

(a) The rate of dividend shall not be more than the average rate of dividend declared in the immediately preceding three years;

(b) The amount withdrawn from the reserves shall not exceed $1/10^{th}$ of the paid-up capital and free reserves of the company.

(c) The amount drawn shall be first utilized for the purpose of set off the losses incurred in that year in which the dividend is going to be declared.

(d) The balance amount in the reserve account shall not be less than 15% of the paid-up capital.

5. Payment of divided:

(i) Dividend shall be payable only in cheque or warrant sent through post or bank transfer. Presently, Govt. insist for online payment.

(ii) Dividend to be paid within 30 days of declaration.

6. Unpaid dividend:

(i) Dividend shall be considered as unpaid , if not paid within 30 days, i. e. any balance in the dividend account after the expiry of 30 days will be unpaid dividend. Unpaid dividend is to be transferred to a "Special Account" after 30 days of declaration, which will be called as " unpaid dividend account".

(ii) After 90 days of such transfer, the company shall prepare details of unpaid dividend, shareholder wise and host the same in company website and MCA website. Non transfer would amount to 12% interest. Shareholder entitled to dividend may claim from this account directly.

7. Investor Education and Protection Fund (IEPF)

(i) 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".

(ii) Any claimant can claim divided from the fund directly with proper documentation.

(iii) Other amounts to be credited to "Investor Education & Protection Fund".

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 ©

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.

8. Penalty for non-payment

If dividend is not paid as per the provisions, every director who is knowingly party to the default may be imprisoned for max. 2 years and fine of Rs.1000/- per day for everyday of default. Company shall be liable to pay interest of 18% p.a during the default period.

However, the following shall not amount to default.

(i) Not paid due to operation of law;

(ii) Shareholders' request for payment in a particular mode cannot be complied with;

(iii) Dispute as to right to dividend;

(iv) Adjusted against any amount receivable from the shareholder;

(v) Non-payment, not due to fault of the company.

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150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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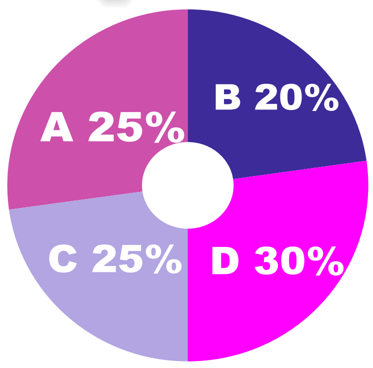
Your Preparation Quick Takes



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

Strategic Financial Management

Study Note 1: Investment Decision, Project Planning and Control

Capital Rationing:

Capital budgeting decisions are often characterized by limited availability of financial resources or fund constraint. As a result, even if all the available projects have positive NPV, a firm may have to forego a few of them just because of non-availability of fund. The firm, in such a case, will select projects to maximize the overall NPV subject to the fund constraint. This type of capital budgeting decision is known as capital rationing.

- **Types of Capital Rationing Decisions:**

  Capital rationing decisions can be studied under the following two situations.

  - **Situation 1: When projects are divisible:**

    A project is considered to be divisible if it can be accepted in part also. In such a situation the principle of capital rationing can be applied through the following steps.

    a) Calculate the Profitability Index (PI) for each project.
    b) Rank the projects in descending order of PI.
    c) Go on accepting the projects based on the above ranking until the funds are fully exhausted.
    d) In case the available fund is inadequate to accept the next project fully, accept it to the extent of fund available i.e. proportionately.
    e) Aggregate of NPV of projects thus selected will be the maximum NPV subject to the fund constraint.

  - **Illustration 1:**

    X Ltd. has Rs.2000000 allocated for capital budgeting purposes. The following proposals are available:

Projects	Initial Outlay (Rs.)	Total PV (Rs.)
A	600000	732000
B	300000	285000
C	700000	840000
D	900000	1062000
E	400000	480000
F	800000	840000

Which of the above investments should be undertaken? Assume that the projects are divisible.

Solution:
Calculation for NPV, Profitability Index and Ranking

Projects	Initial Outlay	Total PV	PI	Ranking	NPV
(1)	(2)	(3)	(4)=(3)/(2)	(5)	(6)=(3) –(2)
A	600000	732000	1.22	2	132000
B	300000	285000	0.95	6	-15000
C	600000	840000	1.4	1	240000
D	900000	1062000	1.18	4	162000

E	400000	480000	1.2	3	80000
F	800000	840000	1.05	5	40000

Selection of the projects based on PI ranking.

Ranking	Projects	Initial Outlay (Rs.)	Cumulative Initial Outlay (Rs.)	NPV (Rs.)
1	C	600000	600000	240000
2	A	600000	1200000	132000
3	E	400000	1600000	80000
4	D	400000	2000000	72000 ∂ ⇓ $\left(162000 \times \frac{400000}{900000}\right)$
Total		2000000		524000

Note: * Project D has been accepted in part as the funds available after accepting project E is not sufficient to accept D in full. NPV has been calculated proportionately.

- **Situation 2: When projects are not divisible:**

  A project is considered to be indivisible if it cannot be accepted in part i.e. either to accept it in full or to reject it. In such a situation the principle of capital rationing can be applied through the following steps.

  a) Make a list of the possible combinations of available projects that can be taken up with the available funds. Though theoretically there can be ($^nC_1$+$^nC_2$+$^nC_3$+.....+ ^nC_n) number of possible combinations that can be considered (though all may not qualify the fund constraint), a trial and error approach with the objective of exhausting most of the funds may help to eliminate combinations with large amount of unused funds where possibility of achieving the maximum NPV is remote.

  b) Calculate the total outlay and aggregate NPV of each combination.

  c) The combination that yields the highest aggregate NPV is considered the best.

  d) In some cases, projects under consideration may have some additional features such as-

  (i) Exclusivity i.e. mutual exclusiveness, as a result of which the projects can be accepted simultaneously. E.g. If project A and C are mutually exclusive, they cannot be included in the same combination.

  (ii) Savings in cost due to synergy i.e. acceptance of two projects simultaneously, leads to reduction in the initial outlay of any one or both. E.g. If project A and D are accepted simultaneously, there will be a saving in total investment to the extent of Rs. 20000.

  (iii)Cost of unused funds i.e. if any fund remain unutilized, it will amount to some opportunity cost to be considered while calculating the overall NPV. E.g. If the best possible combination requires Rs. 980000 whereas the total allotted funds is Rs. 1000000 and opportunity cost if 10%, then total NPV of the selected combination must be reduced by Rs. (1000000 – 980000) 10% = Rs. 2000.

  The above factors should be considered very carefully while evaluating the possible combinations.

- **Illustration 2:** (without features like exclusivity, synergy, cost of unutilized funds)
  In a capital rationing situation (investment limit Rs. 25 lakh), suggest the most desirable feasible combination on the basis of the following data. (All figures in Rs. in lakhs)

Project	Initial Outlay (Rs.)	NPV (Rs.)
A	15	6
B	10	4.5
C	7.5	3.6
D	6	3

Assume that the projects are indivisible.

Solution:

In the given situation theoretically there are $({}^4C_1+{}^4C_2+{}^4C_3+{}^4C_4)$ = 15 possible combinations, though all may not qualify the fund constraint. These are evaluated as follows.

Combinations	Initial Outlay (Rs. in lakhs)	NPV (Rs. in lakhs)
A	15	6.0
B	10	4.5
C	7.5	3.6
D	6	3.0
A & B	25	10.5
A & C	22.5	9.6
A & D	21	9.0
B & C	17.5	8.1
B & D	16	7.5
C & D	13.5	6.6
A & B & C	32.5 (exceed the limit)	N.A
A & B & D	31 (exceed the limit)	N.A
A & C & D	28.5 (exceed the limit)	N.A
B & C & D	23.5	11.1
A & B & C & D	38.5 (exceed the limit)	N.A

Since total NPV is the highest for the combination (B & C & D), the projects to be selected are B, C and D. The resulting aggregate NPV will be Rs. 11.1 lakh with total initial outlay of Rs. 23.5 lakhs.

- **Illustration 3:** (with features like exclusivity, synergy, cost of unutilized funds)

  PQRLimited is considering a number of plant improvement projects with an allocable fund of Rs. 1000000. The following projects are under consideration.

Projects	Outlay (Rs.)	Present Value (Rs.)
A	600000	725000
B	500000	600000
C	400000	500000
D	300000	400000
E	200000	275000
F	50000	75000

Projects A and B are mutually exclusive. If project A is undertaken, the initial cost of project C is reduced by Rs. 50000 (without affecting its benefits). If project B is undertaken the initial cost of D is reduced by Rs. 50000 (without affecting the benefits). The benefit cost ratio of unutilized fund is 0.90. Which projects should be chosen?

Solution:

Calculation of NPV of the projects

Projects	Outlay (Rs.)	Present Value (Rs.)	NPV (Rs.)
A	600000	725000	125000
B	500000	600000	100000
C	400000	500000	100000
D	300000	400000	100000
E	200000	275000	75000
F	50000	75000	25000

Let us assume that the term 'benefit' means the Present Value of cash flow and not NPV.

Then, the revised initial outlay of project C if combined with project A = Rs. (400000-50000) = Rs.350000 and that of project D if combined with project B = Rs. (300000-50000) = Rs. 250000.

Similarly, the revised NPV of project C if combined with A = Rs. (500000-350000) = Rs.150000 and that of project D if combined with B = Rs. (400000-250000) =Rs. 150000.

Evaluation of feasible combination

Combinations	Initial Outlay (Rs.)	NPV (Rs.)
A, C, F	1000000 (600000+350000+50000)	300000 (125000+150000+25000)
B, D, E, F	1000000 (500000+250000+200000+50000)	350000 (100000+150000+75000+25000)
A, D, F	950000 (600000+300000+50000)	245000 × (125000+100000+25000 - 500000.10)
B, C, F	950000 (500000+400000+50000)	220000 × (100000+100000+25000 - 500000.10)
C, D, E, F	950000 (400000+300000+200000+50000)	295000 × (100000+100000+75000+25000 -50000 0.10)

*Here, Rs. (500000.10) = Rs. 5000 is the loss due to unutilized investment.

Since NPV is the highest for the combination (B, D, E, F), the projects to be selected are B, D, E and F.

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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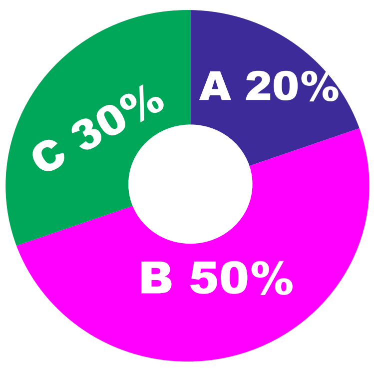


Syllabus Structure

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:

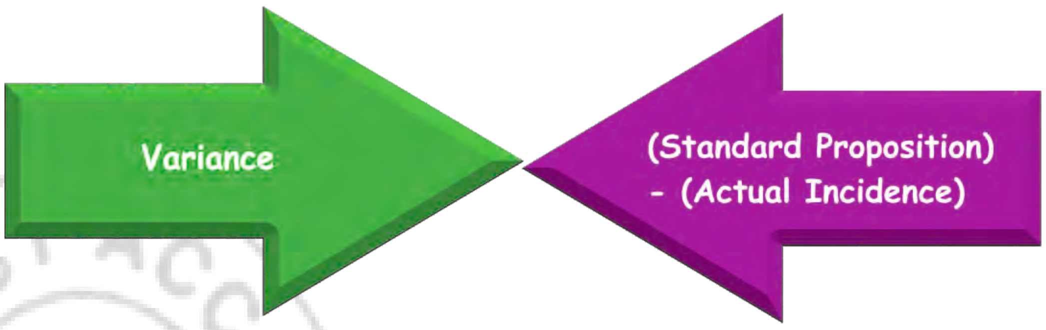
The Strategic cost management framework provides a clear plan of attack for addressing costs and decisions that affect them. It helps to get answers on:

- 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?

Variance Analysis

01.01 Variance

Variance, by definition, denotes the deviation between the standard proposition and the actual incidence.



Variance analysis involves breaking down and analyzing the total variance to explain:

(a) How much of the variance is caused by using the resources that are different from the standards, i.e. the quantity variance; and

(b) How much of the variance is caused by the cost of the resources being different from the standards, i.e. the rate (price) variance.

The main objective of variance analysis is to provide insights into the off-standard performance. It helps the management to improve the operations and correct the errors on a concurrent basis; and deploy the resources more effectively and, thus, control and reduce costs and as also enhancing the revenues.

01.02 Revenue Variance

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

The derivation may be expressed as

"Revenue Variance = (SR – AR)= (SQ x SP) – (AQ x AP)"

where

SR = Standard Revenue for the standard output;

AR = Actual Revenue for the actual output;

SQ = Standard Quantity of the output;

SP = Standard Price per unit;

AQ = Actual Quantity of the output; and

AP = Actual Price per unit.

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

"Revenue Quantity Variance = SP (SQ – AQ)"

where SP = Standard Price per unit;

SQ = Standard Quantity of the output; and

AQ = Actual Quantity of the output.

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

"Revenue Price Variance = AQ (SP – AP)"

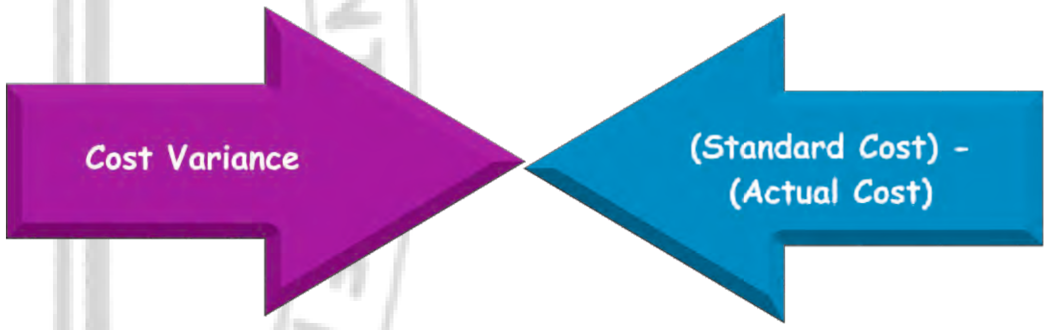
where AQ = Actual Quantity of the output;

SP = Standard Price per unit; and

AP = Actual Price per unit.

01.03 Cost Variance

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



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

The general derivation for cost variance may be expressed as

"Cost Variance = (SC – AC)= (SQ x SP) – (AQ x AP)"

where

SC = Standard Cost of the element for standard production;

AC = Actual Cost of the element for actual production;

SQ = Standard Quantity of the element for standard production;

SP = Standard Price per unit;

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

AP = Actual Price per unit.

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

"Usage Variance = SP (SQ – AQ)"

where

SP = Standard Price per unit;

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

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

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

"Price Variance = AQ (SP – AP)"

where AQ = Actual Quantity of the element consumed;

SP = Standard Price per unit; and

AP = Actual Price per unit.

01.04 Categorization

The variance is categorized as 'Favourable (F)' if the standard revenue is lower than the actual revenue or the standard cost is higher than the actual cost. The variance is categorized as 'Adverse (A)' if the standard revenue is higher than the actual revenue or the standard cost is less than the actual cost.

02.00 Problem for Practice

Here follows a problem that details the computation and reconciliation of cost variances, in general.

02.01 Problem

X Ltd. produces and sells a single product. Standard cost card per unit of the product is as follows:

(Rs.)

Direct materials:	A	(10 kg.@ 5 per kg.)	50
	B	(5 kg. @ 6 per kg.)	30
Direct wages		(5 hours @ 5 per hour)	25
Variable production overheads		(5 hours @ 12 per hour)	60
Fixed production overheads			25
Total standard cost			190
Standard gross profit			35
Standard selling price			225

Fixed production overhead has been absorbed on the expected annual output of 25,200 units produced evenly throughout the year. During the month of December, 2019, the following were the actual results for an actual production of 2,000 units.

(Rs)

Sales		(2,000 units @ 225)	4,50,000
Direct materials:	A	18,900 kg.	99,225
	B	10,750 kg.	61,275
Direct wages	10,500 hours (actually worked 10,300 hours)		50,400
Variable production overheads			1,15,000
Fixed production overheads			56,600
Total Cost			3,82,500
Gross profit			67,500

The material price variance is extracted at the time of receipt of materials. Material purchases were Material A 20,000 kg. @ Rs. 5.25 per kg & B 11,500 kg. @ Rs.5.70 per kg.

Required:

i. Calculate all variances.
ii. Prepare an operating statement showing standard gross profit, variances and actual gross profit.
iii. Explain the reason for the difference, if any, in actual gross profit given in the question and calculated in (ii) above.

02.02 Solution

(***Commentary:*** *Beware that the sentence in the problem 'The material price variance is extracted at the time of receipt of materials' is an examination trick and is aimed at testing the proficiency of students in understanding the concept of variance)*

(i) Calculation of variances

Material Variances

Serial	Description	Workings	Derivation
1	**Material Variances**		
A	Standard Quantity for actual output	A = 2,000 x 10 = 20,000 B = 2,000 × 5 = 10,000	20,000 kg. 10,000 kg
B	Revised Standard Quantity	A =20,000/30,000 × 29,650 = 19,766.67 B = 10,000/30,000 × 29,650 = 9,883.33	19,766.67 kg. 9,883.33 kg.
C	Standard yield	(2,100/31,500) x 29,650 = 1,976.67	1,976.67
D	Material price variance (on receipt basis)	(SP - AP) AQ A = (5 - 5.25) × 20,000 = 5,000 (A) B = (6 - 5.7) × 11,500 = 3,450 (F)	Rs. 1,550 (A)
E	Material usage variance	(SQ- AQ) SP A = (20,000 - 18,900) × 5 = 5,500 (F) B = (10,000 - 10,750) × 6 = 4,500 (A)	Rs.1,000 (F)
F	Material mix variance	SP (RSQ - AQ) A =(19,766.67- 18,900)×5 =4,333.33 (F) B = (9,883.33 -10,750)×6 = 5,200.00 (A)	866.67 (A)
G	Material yield variance	SR (AY - SY) = (2,000- 1,976.67) × 80 = 1,866.67 (F)	Rs. 1,866.67 (F)
2	**Labour Variances**		

A	Direct Labour Rate (Actual)	Direct Wages ÷ Actual Hours = 50,400 ÷ 10,500 = 4.80	4.80
B	Labour rate variance	(SR- AR)AH = (5 - 4.8) × 10,500 = 2,100 (F)	Rs. 2,100 (F)
C	Labour efficiency variance	SR (SH-AH) = (10,000 - 10,300) × 5 = 1,500(A)	Rs.1,500(A)
D	Labour idle time variance	Idle hours x SR = 200 × 5= 1,000 (A)	Rs. 1,000 (A)
3	**Variable Overhead Variances**		
A	Recovered VOH Standard VOH	2000 units x 5 hrs per unit x Rs. 12 per hour = Rs.1,20,000 10300 hours x Rs. 12 per hour = Rs. 1,23,600	
B	VOH Cost Variance	Recovered overhead - Actual overhead = (1,20,000 - 1,15,000) = 5,000 (F)	Rs. 5,000 (F)
C	VOH Expenditure Variance	Standard VOH - Actual VOH = (1,23,600 - 1,15,000) = 8,600 (F)	Rs. 8,600 (F)
D	VOH Efficiency Variance	Recovered VOH - Standard VOH = 1,20,000 - 1,23,600 = 3600 (A)	Rs.3600 (A)
4	**Fixed Overhead Variances**		
A	Recovered FOH Budgeted FOH	2000 units x 25 per unit = Rs.50,000 (25200 units x25 per unit)/12 = 52,500	
B	FOH Cost Variance	Recovered overhead - Actual overhead = (50,000 - 56,600) = 6,600 (A)	Rs.6,600 (A)
C	FOH Expenditure Variance	Budgeted overhead- Actual overhead = (52,500 - 56,600) = 4,100(A)	Rs.4,100 (A)
D	FOH Volume Variance	Recovered overhead - Budgeted overhead = (50,000 - 52,500)=2,500 (A)	Rs.2,500 (A)

(Commentary Notes:

(i) Revised standard quantity has been computed as the ratio that 'the standard quantity for actual output' (as at 1A) bears to the standard quantity of direct materials. The aggregate of 'the standard quantity for actual output' works out to 30,000 kg (20,000 kg of material A + 10,000 kg of material B) and the standard quantity of direct materials works out to 29,650 kg (18,900 kg of material A + 10,750 kg of material B).

(ii) In relation to 'Standard Yield' (as at 1C), the numeral of 2,100 (reflecting the standard production per month) is derived by dividing the annual production of 25,200 (as given in the problem) by 12.

(iii) Material price variance has been calculated on the basis of receipt of materials. Material price variance on consumption basis is as follows:

Material price variance on consumption basis	(SP - AP) AQ A = (5 - 5.25) × 18,900 = 4,725 (A) B = (6 - 5.7) × 10,750 = 3,225 (F)	Rs. 1,500 (A)

Check:

Material Cost Variance	(SC - AC) = { 2000 units x (Rs 50 for A + Rs.30 for B)) – (Rs.99,225 for A + 61,275 for B) = (1,60,000 – 1,60,500) = Rs.500 (A)	Rs. 500 (A)

Material Cost Variance of Rs.500 (A) thus calculated equals to Material Usage Variance of Rs. 1,000 (F) + Material Price Variance of

1,500 (A) as computed above in the commentary notes.

(iv) *Similar checks can be exercised for Labour Cost Variance, VOH Cost Variance and FOH Cost Variance.)*

(ii) Reconciliation Statement

(Rs.)

Serial	Description	Favourable	Adverse	Rupees
1	Standard profit (35 x 2,000)			70,000
2	Variances			
A	Material			
	Price		1550.00	
	Mix		866.67	
	Yield	1866.67		
	Sub Total			550 (A)
B	Labour			
	Rate	2100		
	Efficiency		1500	
	Idle Time		1000	
	Sub Total			400(A)
C	Variable Overheads			
	Expenditure	8600		
	Efficiency		3600	
	Sub Total			5000(F)
D	Fixed Overheads			
	Expenditure		4100	
	Volume		2500	
	Sub Total			6600(A)
E	Total	12566.67	15116.67	2550(A)
3	Actual Profit (70,000 – 2550)			67,450

(iii) Explanation for the difference

Actual gross profit given in the question is 67,500 while calculated profit in statement is Rs. 67,450. The difference amount of Rs.50/- is due to material price variance that is calculated at the time of receipt of material instead of calculating it on the basis of consumption of material.

Material price variance on consumption basis works out to Rs.1,500(A) instead of Rs.1,550(A) considered in the reconciliation statement whereby the difference of Rs.50/- arises. Actual Profit stands revised to Rs.67,500/-, i.e. (67450+50) after adding the difference.

03.00 Quick Take

By recalibrating costs and prices by means of variance analysis, manufacturers can sustain themselves amidst uncertainties.

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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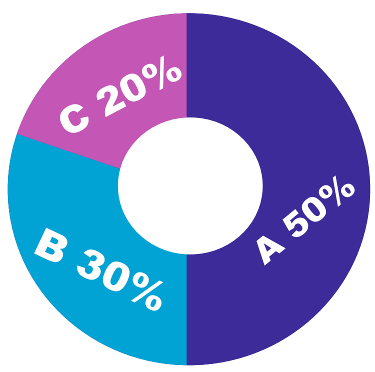
Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Case StudyAnalysis **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.

REVISION

Revision of order prejudicial to the revenue [Sec. 263]

Orders which may be revised	Any order passed by the Assessing Officer, which is - **a)** Erroneous; **b)** Prejudicial to the interests of the revenue; and **c)** Passed by an authority subordinate to the Commissioner. **Notes** Orders passed by the Assessing Officer includes - i. An order of assessment made by the Assistant Commissioner on the basis of the directions issued by the Joint Commissioner u/s 144A; ii. An order made by the Joint Commissioner - • in exercise of the powers; or • in performance of the functions of the Assessing Officer assigned to him under the orders or directions issued by the Board or by the Chief Commissioner or Director General or Commissioner. **Note:** - Order made by the Assessing Officer after making proper enquiries and considering relevant details and decisions of Supreme Court cannot be said to be erroneous and prejudicial to the interest of the revenue, hence such order cannot be revised. - An order passed by the Assessing Officer shall be deemed to be erroneous in so far as it is prejudicial to the interests of the revenue, if, in the opinion of the Principal Commissioner or Commissioner: **a)** the order is passed without making inquiries or verification which should have been made; **b)** the order is passed allowing any relief without inquiring into the claim; **c)** the order has not been made in accordance with any order, direction or instruction issued by the Board under section 119; or **d)** the order has not been passed in accordance with any decision which is prejudicial to the assessee, rendered by the jurisdictional High Court or Supreme Court in the case of the assessee or any other person
Treatment of an order, which is subject matter of the appeal	Revision u/s 263 of an order, which is subject matter of appeal, cannot be made. **Notes** • The Commissioner can revise such order (which has been a subject matter of appeal) which had not been considered and decided in such appeal. • An order cannot be said to have been made subject of an appeal if the appeal has been disposed of by the appellate authority without passing an order
Procedure to be followed	1. **Examination of Records:** The Commissioner may call for and examine the records of any proceeding under the Act. If he considers that any order passed by the Assessing Officer is prejudicial to the interest of the revenue, he can revise and rectify the assessment. Record shall include all records relating to any proceeding under this Act available at the time of examination by the Commissioner. This means that any material, which was not available at the time of assessment but available at the time of examination by the Commissioner, shall also be considered for order u/s 263. 2. **Inquiry:** He must make or cause to be made such inquiry as he deems necessary. 3. **Opportunity of being Heard:** No revision order shall be passed u/s 263 without giving the assessee an opportunity of being heard. 4. **Order:** Finally, he may pass such revision order as the circumstances of the case justify including an order enhancing, modifying or cancelling the assessment and directing a fresh assessment.

Time limit for passing revision order	2 years from the end of the financial year in which the order sought to be revised was passed. In computing the above period of limitation following period shall be excluded - • Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & • Any period during which any proceeding under this section is stayed by an order or injunction of any court. **Exception:** There is no time limit for passing a revision order to give effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.
Appeal against order u/s 263	A revisional order passed by the Commissioner u/s 263 can be appealed to the Tribunal.
Sec.263 vs. sec.154: Commissioner can exercise the power even in a case where the issue is debatable. Revision power u/s 263 is not comparable with the power of rectification of mistake u/s 154	

Revision of Order not Prejudicial to Revenue [Sec. 264]

Orders which may be revised	Any order which is - • erroneous; • not covered u/s 263 (i.e. not prejudicial to the interest of the revenue); • passed by an authority subordinate to the Commissioner. ***Taxpoint:*** *No order* under this section can be passed which is prejudicial to the assessee. **Notes:** a) Order which is not appealable before the Commissioner (Appeal) can also be referred to the Commissioner for revision. b) For the purposes of this section, the Deputy Commissioner (Appeals) shall be deemed to be an authority subordinate to the Commissioner.
On whose motion is revision possible	Either on the Commissioner's own motion or on an application by the assessee for revision.
Procedure to be followed	1. **Examination of Records:** Once revision proceedings have been initiated, the Commissioner may call for and examine the record of any proceeding. 2. **Inquiry:** He must also make or cause to be made such inquiry as he deems necessary 3. **Order:** He may pass such revision order as the circumstances of the case justify. However, the order passed should not be prejudicial to the assessee. The Commissioner under this section, can cancel the assessment and direct the Assessing Officer to make a fresh assessment.
Time limit for filing an application	Where revision has been initiated by the assessee, the application must be made within 1 year from the date on which the order in question was communicated to the assessee or the date on which he otherwise came to know of it, whichever is earlier. However, the Commissioner can admit a belated application if the assessee was prevented by sufficient cause from making the application within time. In computing the above period of limitation following time shall be excluded: • The day on which the order complained of was served; and • If the assessee had not received the copy of the order, the time required to obtain copy of such order.
Time limit for passing a revisional order	Where the Commissioner acts on his own motion – Within 1 year from the date of original order Where the application is made by the assessee – **Within 1 Year from The End of the Financial year in which such Application is Made.** In computing the above period of limitation following period shall be excluded. • Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & • Any period during which any proceeding under this section is stayed by an order or injunction of any court. [Sec. 264(6)] • However, there is no time limit for passing a revision order for giving effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.
Orders which cannot be revised	a) Where an order is appealable but no appeal has been made to CIT (A) or to the Tribunal and time within which such appeal can be made has not expired. **Note:** Where an appeal lies to the Commissioner (Appeals) or to the Appellate Tribunal and the right of appeal is waived by the assessee, the Commissioner may revise the order even before the expiry of time limit of appeal. b) Where the order has been made the subject of an appeal to the Commissioner (Appeals) or to the Appellate Tribunal; or

	Note The assessment order could not be said to have been made subject matter of appeal- 1. Where an appeal was dismissed - a) on the ground that the same was incompetent; or b) as barred by limitation; or 2. Where an appeal was withdrawn at the motion of the assessee.
Fee	₹ 500 where the application for revision is made by the assessee.
Appeal against order u/s 264	A revision order passed by the Commissioner u/s 264 cannot be appealed to the Tribunal or the High Court. However, a petition for a writ of certiorari under Article 226 is maintainable
Other points	• The assessee cannot claim the right of revision in respect of an earlier year on the basis of finding of the Tribunal for a subsequent year. • An order by the Commissioner declining to interfere shall not be deemed to be an order prejudicial to the assessee.

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YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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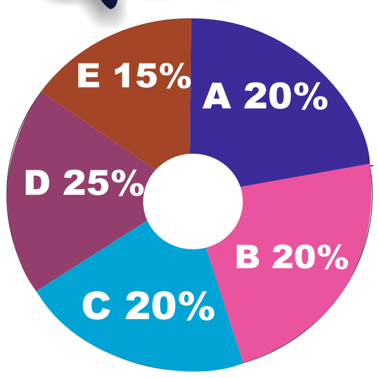
Your Preparation Quick Takes



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.

Some Illustrative Examples of Business Combination

In this issue I shall take up some illustrations of amalgamation or merger of two old companies to form a new company. This transaction can be accounted in two methods:

A. Pooling of Interest method under business combination under common control as per Appendix C of Ind AS 103: Where the parties in control of the old companies (transferor companies) are retaining control of the newly formed company (Transferee Company). It is shown in Illustration 1.

B. Acquisition method under Ind AS 103: Where any of the old company's shareholders/management are getting control of the newly merged company. It is a case of reverse acquisition. It is shown in Illustration 2.

Illustration 1: (Amalgamation: Business combination under common control)

DA Ltd. and TA Ltd. were amalgamated to form a new company DATA Ltd. on 31-03-X7 who issued requisite number of equity shares of Rs. 10 to take over the businesses of DA and TA. The abstract of balance sheets of the companies on 31-03-X7:

Rs. in Lakhs

	DA	TA
PPE	7500	8000
Financial Assets	800	500
Current Assets	4700	6500
Equity Share Capital	6000	8000
Other Equity	3000	3000
Borrowings	2000	3000
Current Liabilities	2000	1000

Pass journal entries in the books of DA, TA and DATA Ltd. And show balance sheet abstract after merger.

Solution:

The combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination. It is a business combination under common control, and pooling of interest method of accounting is being followed.

WN 1. Carrying amount after merger

	DA	TA	DATA
PPE	7500	8000	15500
Financial Assets	800	500	1300
Current Assets	4700	6500	11200
Equity Share Capital	6000	8000	14000
Other Equity	3000	3000	6000
Borrowings	2000	3000	5000
Current Liabilities	2000	1000	3000

WN 2. Purchase consideration

	DA	TA	DATA
Equity Share Capital	6000	8000	14000
Other Equity	3000	3000	6000
Equity	9000	11000	20000
Share	9/20	11/20	20/20
Purchase consideration	(9/20)x14000 = 6300	(11/20)x14000 = 7700	14000

Journal in the books of transferor company DA Ltd.

Current Liabilities	Dr.	2000	
Borrowings	Dr.	2000	
Realisation A/C	Dr.	9000	
To PPE			7500
To Current Assets			4700
To Financial Assets			800
(transferred to Realisation A/c)			
Shares in DATA Ltd A/c	Dr.	6300	
To Realisation A/c			6300
(Consideration)			
Equity Shareholders A/c	Dr.	2700	
To Realisation A/c			2700
(Loss on Realisation)			
Equity Share Capital A/c	Dr.	6000	
Other Equity A/c	Dr.	3000	
To Equity Shareholders A/c			9000
Equity Shareholders A/c	Dr.	6300	
Shares in DATA Ltd.			6300

Journal in the books of transferor company TA Ltd.

Current Liabilities	Dr.	1000	
Borrowings	Dr.	3000	
Realisation A/c	Dr.	11000	
To PPE			8000
To Current Assets			6500
To Financial Assets			500
(transferred to Realisation A/c)			
Shares in DATA Ltd	Dr.	7700	
To Realisation A/c			7700
(Consideration)			
Equity Shareholders A/c	Dr.	3300	
To Realisation A/c			3300
(Loss on Realisation)			
Equity Share Capital A/c	Dr.	8000	
Other Equity	Dr.	3000	

To Equity Shareholders A/c 11000

Equity Shareholders A/c Dr. 7700
Shares in DATA Ltd. 7700

Journal in the books of Transferee company DATA Ltd.

PPE Dr. 15500
Current Assets Dr. 11200
Financial Assets Dr. 1300

To Consideration 14000
To Borrowings 5000
To Current Liabilities 3000
To Other Equity* 6000

Consideration a/c Dr. 14000
TO Equity Share Capital 14000

Balance sheet abstract of DATA Ltd. as at 31-03-20X7

Rs. in lakh

PPE	15500
Financial Assets	1300
Current Assets	11200
Total	28000
Equity Share Capital	14000
Other Equity	6000
Borrowings	5000
Current Liabilities	3000
Total	28000

*Carried in the same A/c name of the transferor companies. The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.
Note: It is Individual balance sheet and not a consolidated balance sheet.

Illustration 2: (Amalgamation: Reverse acquisition)

DA Ltd. and TA Ltd. were amalgamated to form a new company DATA Ltd. on 31-03-X7 who issued requisite number of equity shares of ` 10 to take over the businesses of DA and TA. The abstract of balance sheets of the companies on 31-03-X7:

Rs. in Lakhs

	DA	TA
PPE	7500	8000
Financial Assets	800	500
Current Assets	4700	6500
Equity Share Capital	6000	10000
Other Equity	3000	1000
Borrowings	2000	3000
Current Liabilities	2000	1000

Fair value of the following items is given:

	DA	TA
PPE	8000	6000
Current Assets	5000	7000
Fair Value of Business	7500	15000

However the control of DATA Ltd. is taken by the management of TA Ltd.
Pass journal of DATA Ltd. and show the merged balance sheet.

Solution:

Management of TA Ltd. having the control over DATA Ltd., it is considered a reverse acquisition and in the merged balance sheet, assets and liabilities of TA Ltd. would be shown at carrying amount.

Rs. in Lakhs

	DA	TA
Fair Value of Business	7500	15000
Share of each company in the merged company	1/3	2/3

Fair value per share of TA = 15000/1000 = Rs. 15
Effective Consideration (assumed to be payable by TA to DA) is : 7500 in 7500/15 = 500 lakh shares
Or, No. of shares held by TA for 2/3 share in DATA = 1000 lakh shares; no. of shares to be issued to DA for 1/3 share = 500.
Thus purchase consideration to DA = 500 lakh shares (of Rs. 10 each) = Rs. 5000 plus premium Rs. 2500. Purchase consideration to TA = carrying amount of equity of TA = Rs. 11000 = 1000 lakh shares = Rs. 10000 plus premium Rs. 1000.
Note 1: Gain on bargain purchase

Rs. in Lakhs

PPE	8000
Financial Assets	800
Current Assets	5000
Total assets	13800
Borrowings	2000
Current Liabilities	2000
Total liabilities	4000
Net Assets	9800
Consideration	7500
Gain on Bargain Purchase	2300

Journal of DATA Ltd.

PPE	16000	
Financial assets	1300	
Current assets	11500	
To, Borrowings		5000
To, Current liabilities		3000
To, Purchase consideration to DA (at fair value)		7500
To, Purchase consideration to TA (at carrying amount of equity of TA)		11000

To, Gain on bargain purchase (Other equity)		2300
Purchase consideration to DA	7500	
Purchase consideration to TA	11000	
To, Equity share capital [(500+1000)x10]		15000
To, Security Premium (Other equity)[2500+1000]		3500

Balance sheet of DATA Ltd as at 31-03-20X7 Rs. in Lakhs

Assets	FV of DA plus Bk value of TA	Amount
Non Current Assets		
PPE	8000+8000	16000
Financial Assets		1300
Current Assets	5000 + 6500	11500
Total assets		28800
Equity and Liabilities		
Equity		
Equity Share Capital 1500 (1000+500) lakh shares of Rs. 10		15000
Other Equity (2300+3500)		5800
Borrowings		5000
Current Liabilities		3000
Total		28800

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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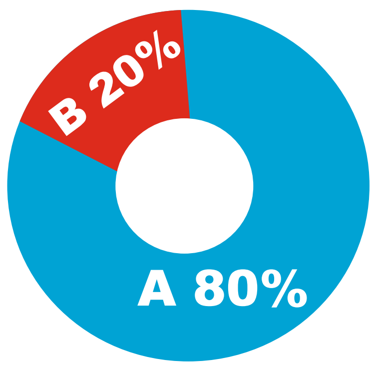
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

- Basic idea of job work
- Documents required for sending goods to job worker
- Details of delivery challan
- Registration of job worker under GST
- Consequence when goods are not returned in time
- Principal's right sale goods from job worker place
- Treatment of waste and scrap
- Principal's responsibilities
- Claiming of Input Tax Credit
- Goods sent by one job worker to other

INDIRECT TAX

Job work can be defined as processing or working on raw materials or semi-finished goods supplied by the principal manufacturer to the job worker. As per GST Act, job work means any treatment or process undertaken by a person on goods belonging to another registered person. The person doing the job work is called job worker.

Value of goods sent by the principal will not be included in the aggregate turnover of the registered job worker

For transportation of goods to job work, a delivery challan shall be issued by principal.

Delivery Challan shall also be issued when materials is sent directly to place of job worker from place of supplier. The general norms are –

a) All goods sent for job work must be accompanied by a challan.
b) The challan will be issued by the principal
c) It will be issued even for the inputs or capital goods sent directly to the job-worker.
d) The details of challans must be shown in FORM GSTR-1.
e) Details of challans must also be filed through Form GST ITC – 04.

The delivery challan serially numbered should be issued at the time of removal of goods for transportation, containing the following details –

1. Date & number of delivery challan,
2. Name, Address & GSTIN of consigner if registered.
3. Name, Address & GSTIN or UIN of consignee if registered
4. HSN code & description of goods,
5. Quantity (provisional may be given where the exact quantities of supplies is not known).
6. Taxable value,
6. Tax rate & Tax amount (CGST,SGST,IGST,UGST or cess separately)
7. Place of supply (in case inter state movement) and
8. Signature

The principal has to prepare the challan in case of supply of goods to job work ,with the following marking

(a) Original copy being marked as 'Original For Consignee'.
(b) Duplicate copy being marked as 'Duplicate For Transporter' and
(c) The triplicate copy of challan for return (job worker to principal) i.e to be marked for Consigner.

The challan issued must include the following particulars:

1. Date and number of the delivery challan
2. Name, address and GSTIN of the consigner and consignee
3. HSN code, description and quantity of goods
4. Taxable value, tax rate, tax amount- CGST, SGST, IGST, UTGST separately
5. Place of supply and signature

The Principal has the responsibility for keeping proper accounts for the inputs or capital goods.

Registration under GST
Where a job worker provides service of value more than Rs. 20 lakh, he is required to register under section 22 of CGST Act 2017. To

avail the benefits under GST, a job worker may also voluntarily register as provided under section 25(3) of CGST Act 2017. When there is inter-State supply of goods or services, the registration under GST is mandatory. However, the government has provided exemption from registration for job workers making inter-state supply of services unless they are covered under the following:

I. Job worker is registered under GST voluntarily/ or is registered as limit of 20 lakh is crossed, or;
II. Job worker provides services in relation to goods such as – Jewellery, goldsmiths and silversmiths wares and other articles of Chapter 71 of Customs Tariff.

Consequence when goods not returned within time

In case goods are not received within the period as mentioned above, such goods will be deemed as supply from effective date. The principal manufacturer will have to pay tax on such deemed supply.
The challan issued will be treated as an invoice for such supply.

Direct sale by principal from the job worker's place

The principal manufacturer can supply the goods from the place of business of a job worker to others, if the principal declares such place of business as his additional place of business.

This rule does not apply when -

(*i*) The job worker is registered
(*ii*) The principal supplies goods which are specifically notified by the Commissioner to be allowed to sell directly from job worker's place.

Treatment of Waste and Scrap generated during the Job Work

In case of supply of scrap

a) Job worker may supply the scrap along with payment under GST, if the Job worker is registered.
b) The job worker should return scarp to the principal, who may also supply the scrap directly from job worker premises under his invoice if the job worker is unregistered.

The registered job worker may be supplied by any waste and scrap generated during the job work from his place of business on payment of tax,

For unregistered job worker such waste and scrap shall be supplied by the Principal.

The Principal's responsibilities regarding job work

(1) Challan being issued by the principal to the job-worker for the inputs or capital goods
(2) Maintain the accounts of input and capital goods related to job work
(3) Intimate the jurisdictional officer for the detailing of the intended input goods and the nature of the processing being delivered by the job-worker
(4) In case of export the goods to the third party directly and the job-worker is not registered under GST then the principal has to declare the premises of job worker as additional place of his business.

Time limit for the principal manufacturer / owner to receive back the processed goods.

The principal manufacturer must receive the goods back within the following period:

1. Capital Goods- 3 years from effective date
2. Input Goods- 1 year from effective date

The time limits will not apply to items like moulds and dies, jigs and fixtures, or tools sent out to a job worker for carrying out the job work.

Input Tax Credit on tax paid can be allowed to the principal manufacturer on the purchase of goods sent for job work.
The required conditions are -

For sending of goods to job worker :

1. From principal's place of business to job worker place
2. Directly from the place of supply of the supplier of such goods to job worker.

ITC will be allowed in both the cases.

The place of business determine the effective date for goods sent

1.When the goods sent from principal's place of business- Date of goods sent out to be considered
2.Send directly from the place of supply of the supplier of such goods- Date of receipt by job worker to be considered.

Effective date is important because it will help to determine the point of taxation if the goods are not returned back within the specified time.

In case of goods are send to one job worker to another job worker

Goods may move under the cover of challan issued either by job worker or principal.

In case of goods returned by job worker in piecemeal basis –

Goods returned by job worker in installments cannot be endorsed in the delivery challan issued by the principal, job worker requires to raise a fresh challan

E- Way bill:

If the principal and job worker are located in the different States, E-way bill must be generated for inter-State movement without considering threshold limit of Rs. 50,000. (Rule 138 of CGST Rules)

Either the principal or job worker or transporter can raise E- way bill, while returning goods after completion of job work to principal's premises

Waybill is required for "every movement" and not "every supply" while returning goods after completion of job work to principal's premises, to be noted.

In case goods are not returned to principal within the specified period then such goods will be treated as supply from the effective date and tax will be payable by the principal i.e such goods will be deemed as supply from effective date.
The challan issued will be treated as an invoice for such supply.

Submission of Form ITC-04

FORM GST ITC-04 must be submitted by the principal every quarter. He must include the details of challans in respect of the following-

- Goods dispatched to a job worker or
- Received from a job worker or
- Sent from one job worker to another

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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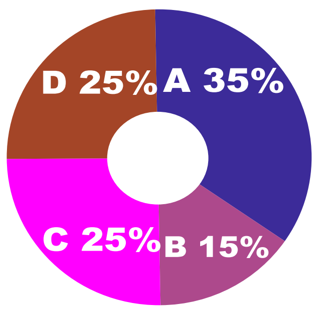
Your Preparation Quick Takes



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

Internal Audit – With specific reference to Valuation of Inventories.

Introduction

Internal auditing is an independent appraisal activity within an organization for the review of operations as a service to the management. It improves managerial control by measuring and evaluating the effectiveness of other controls, and by maintaining a vigilant watch over risks.

Verification of valuation of Inventories is one of the most important areas of internal audit, as its correct or otherwise value affects the true and fair view of the affairs of the company. This relates to examination of quantity, quality, compositions and real value of the stock of inventories as on a particular day.

Definition

"Inventories" are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale;
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are found in the form of

- Raw Materials
- Work in Process
- Finished goods
- Stores and spares, consumables and tools.

Following the conservative method of accounting the inventories are presented in the books of accounts at cost, or net realisable value, whichever is lower. Therefore it is important to understand the method to arrive at both cost and net realisable value of inventory for its correct presentation in the books of accounts.

Cost of Inventories

The cost of Inventories mainly comprises of Cost of purchase and Cost of conversion as described below.

1 Cost of inventories shall comprise of all costs of purchase, costs of services, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

2. The costs of purchase shall consist of purchase price including duties and taxes, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase.

3. The costs of services in the case of a service provider shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.

4. The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads shall be those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production.

5. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion shall be based on the normal capacity of the production facilities.
Normal capacity shall be the production expected to be achieved on an average over a number of periods or seasons under normal

circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production shall be used when it approximates to normal capacity. The amount of fixed production overheads allocated to each unit of production shall not be increased as a consequence of low production or idle plant.

6. Unallocated overheads shall be recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above the cost. Variable production overheads shall be assigned to each unit of production on the basis of the actual use of the production facilities.

7. Where a production process results in more than one product being produced simultaneously and the costs of conversion of each product are not separately identifiable, the costs shall be allocated between the products on a rational and consistent basis. Where by-products, scrap or waste material are immaterial, they shall be measured at net realisable value and this value shall be deducted from the cost of the main product.

Other Costs which are also considered for valuation are the costs to the extent that they are incurred in bringing the inventories to their present location and condition.

Interest and other borrowing costs shall not be included in the costs of inventories, unless they meet the criteria for recognition of interest as a component of the cost as specified in the Income Computation and Disclosure Standard on borrowing costs.

It may be noted that the following nature of expenses should not form part of the cost. In other words they shall be recognised as expenses of the period in which they are incurred, such as

- Abnormal amounts of wasted materials, labour, or other production costs;
- Storage costs, unless those costs are necessary in the production process prior to a further production stage;
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition;
- Selling costs.

Cost of inventories, assigned by using the First-in First-out (FIFO), Last in first out (LIFO) or weighted average cost formula. The formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. And whatever method is followed it should be used constantly

<u>Net Realisable Value</u>

1. Inventories shall be written down to net realisable value on an item-by-item basis. Where 'items of inventory' relating to the same product line having similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line, such inventories shall be grouped together and written down to net realisable value on an aggregate basis.

2. Net realisable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realisable value shall also take into consideration the purpose for which the inventory is held. The estimates shall take into consideration fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such events confirm the conditions existing on the last day of the previous year.

3. Materials and other supplies held for use in the production and where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.

<u>Change of Method of Valuation of Inventory</u>

The method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause.

<u>Valuation of Inventory in Case of Certain Dissolutions</u>

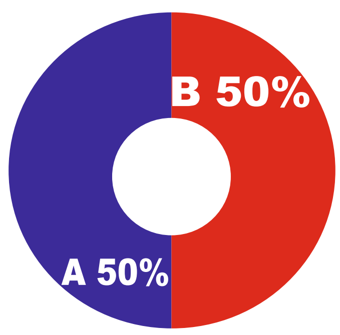
In case of dissolution of a partnership firm or association of person or body of individuals, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the net realisable value.

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta
He can be reached at:
cu.ashis@gmail.com

GROUP: iv, 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 H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Risk Management (ERM)-Process and other Issues

Risk Management

Risk management is the process of measuring or assessing risk and developing strategies to manage it. Risk management is a systematic approach in identifying, analyzing and controlling areas or events with a potential for causing unwanted change. It is the act or practice of controlling risk. It includes risk planning, assessing risk areas, developing risk handling options, monitoring risks to determine how risks have changed and documenting overall risk management program.
Integrated risk management is a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives.

Objectives of Risk Management

i) Anticipating the uncertainty and the degree of uncertainty of the events not happening the way they are planned.
ii) Channelizing events to happen the way they are planned.
iii) Setting right, at the earliest opportunity, deviations from plans, whenever they occur.
iv) Ensuring that the objective of the planned event is achieved by alternative means, when the means chosen proves wrong, and
v) In case the expected event is frustrated, making the damage minimal.

Risk Management Process

Risk Management Process refers to the process of measuring or assessing risk and then developing strategies to manage risk. In the risk management, the following steps are taken up to minimize the risk;

Step 1: Risk Identification and Assessment

This step involves event identification and data collection process. Organisation has to put in place a system of capturing information either through key risk drivers (KRIs) or through a rating system. Once risks are identified, combine like risks according to the following key areas impacted by the risks—people, mission, physical assets, financial assets, and customer/ stakeholder trust.

Step 2: Risk Quantification and Measurement

The next step is to quantify and measure risk rate risks according to probability and impact. Various standard tools are used by financial institutions to measure risk and understand their impact in terms of capital or its importance to the organization through a scoring technique.

Step 3: Risk Analysis, Monitor and Reporting

The next step is risk analysis, monitoring and reporting. This will help one to get the big picture and decided on the approach to risk management.

Step 4: Capital Allocation

Risk analysis, monitoring & reporting sends information to the top management of the organization to take strategic decisions. Capital allocation plays key role in management decision making.

Step 5: Risk Management and Mitigation

After the above step, the last step is to make strategic decisions to manage the risk in order to mitigate free risks.

Risk Pooling

The concept of risk pooling is to share or reduce risks that no single member could absorb on their own. Hence, risk pooling reduces a person or firm's exposure to financial loss by spreading the risk among many members or companies.
Risk pool is one of the forms of risk management mostly practiced by insurance companies. Insurance companies come together to form a pool, which can provide protection to insurance companies against catastrophic risks such as floods, earthquakes etc. Actuarial concepts used in risk pooling include:

a) Statistical variation.
b) The law of averages.
c) The law of large numbers.
d) The laws of probability.

Risk Analysis - Risk Mapping

Risk mapping is the process of identifying, quantifying and prioritizing the risks that may interfere with the achievement of organizational objectives.

The aim of Risk mapping 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.

Risk mapping is the first step in operational risk measurement, since it requires identifying all potential risks to which an organisation is exposed and then pointing out those on which attention and monitoring should be focused given their current or potential future relevance for the organisation.

Risk mapping process is sometimes identified with the usual classification of operational risks in a simple frequency/severity matrix, what is really needed to map bank's internal processes in order to understand what could go wrong, where and why, to set the basis for assessing potential frequency and severity of potential operational events and to define a set of indicators that can anticipate problems based on the evolution of the external and internal environments.

Benefits of Risk Mapping

i) It promotes awareness of significant risks through priority ranking, facilitating the efficient planning of resources.
ii) It enables the delivery of solutions and services across the entire risk management value chain.
iii) It serves as a powerful aid to strategic business planning.
iv) It aids the development of an action plan for the effective management of significant risks.
v) It assigns clear responsibilities to individuals for the management of particular risk areas.
vi) It provides an opportunity to leverage risk management as a competitive advantage.
vii) It facilitates the development of a strategic approach to insurance programme design.
viii) It supports the design of the client's financing and insurance programmes, through the development of effective/optimal retention levels and scope of coverage etc.,

Risk Mapping Process

The risk mapping process is a part of a systematic, comprehensive methodology to identify, prioritize, and quantify (at a macro level) risks to an organization. In risk mapping process Zurich IC classified operational risks as: (i) People risk (human errors, accidents & personal injuries frauds, etc), (ii) Process risk (faulty business process, incorrect working method, etc) (iii) Relationship risk (loopholes in contracts rousing disputes/ damages, statutory violations entailing penalties, etc) (iv) Technology risk (obsolete plant, unreliable machineries, software bugs/ virus, etc) (v) External risk (disaster, riots, wars, etc). It is possible for any of the above risks to migrate into the other. Other methods of capturing information include structured interviews, surveys (written and electronic) or a combination of these. Individual client characteristics and needs dictate the appropriate method of data collection.

Economic Risk

Economic risk is the chance that macroeconomic conditions like exchange rates, government regulation, or political stability will affect an investment in a country. It is concerned with the general economic climate within the country.

Some of the factors which reflect the economic climate of a country are:

1. Level of affluence enjoyed by the country.
2. The growth rate of income.
3. The nation's propensity to save/invest.
4. The stability of prices (inflation).
5. Characteristics of the labour force.
6. Level of sophistication of the financial system.
7. Level of foreign debt outstanding.
8. Major income earners (exports) and their sensitivity to overall global economic changes.
9. Extent of dependence on major export items.
10. Trends in balance of payments.
11. Level of imports
12. Level of reserve and credit standing, and
13. Fluctuations of exchange rate and controls on foreign exchange.

Financial Risk

Financial risk is the possibility of losing money on an investment or business. Financial risks in financial sector include market risks (interest rate risk, price risk, and basis risk), credit risks and liquidity risks etc.

Financial risk is primarily influenced by the level of financial gearing, interest cover, operating leverage, and cash flow adequacy. The financial risk depends on the method of financing adopted by the company. Financial risk is associated with the capital structure of a firm. A firm with no debt financing has no financial risk. The extent of financial risk depends on the leverage of the firm's capital structure. A highly geared firm may face the problems like high cost of equity and debt funds, cash flow problems in servicing off debt obligations, constraints on management control, fall in profits available to equity holders etc. The financial risk will also arise due to short-term liquidity problems, shortage of working capital, inefficiency in collection of receivables, bad debts, funds tied in excess inventories, long operating cycle etc.

Value at Risk (VaR)

Value at Risk (VaR) is one of the popular methods of measuring financial risks. It indicates the possible minimum loss in a specified period and at a specified confidence level from a fall in the price of a security or exchange rate.

There are different types of VaR — long-term VaR, marginal VaR, factor VaR, and shock VaR.

VaR is also defined as the threshold value such that the probability of a portfolio making a market to a market loss over a specific time horizon exceeds this value.

VaR at 99% confidence level implies 1% probability of the stated loss. The loss is generally stated in absolute amount for a given transaction value or value of a investment portfolio.

For example, if a portfolio stock has a one day 1 per cent VaR of Rs. 10 million, there is 0.01 probability that the portfolio may face a reduction in value by more than Rs.10 million over a specific time period. This is on assuming that normal market operations and there is no trading.

A loss which exceeds VaR threshold is known as =VaR break'. VaR has applications in financial risk management, risk measurement, control and reporting. It can also be used in calculating regulatory capital. VaR essentially identifies the boundary between normal days and extreme occurrences. The probability level is specified as 1 minus probability of a VaR Break. Normally VaR parameters are 1 per cent and 5 per cent probabilities and 1 day and 2 week horizons. While VaR represents loss, a negative VaR would indicate that a portfolio has a high probability for making profits. There are two types of VaR—one is applied primarily in risk management and the other in risk measurement.

Multiple Choice Questions (MCQs)

1. The risk which is concerned with the general economic climate (such as growth rate of income, characteristics of the labour force, level of foreign debt outstanding etc.) within the country, is termed as:

   (A) Country Risk
   (B) Political Risk
   (C) Economic Risk
   (D) Social Risk

Answer: (C) Economic Risk

2. The risk which is primarily influenced by the level of financial gearing, interest cover, operating leverage, and cash flow adequacy, is called:

(A) Financial Risk
(B) Business Risk
(C) Economic Risk
(D) Default Risk

Answer: (A) Financial Risk

3. One of the forms of risk management mostly practiced by insurance companies is ________________.
   (A) Probability of Ruin
   (B) Risk reduction
   (C) Risk Pooling
   (D) Risk Mapping

Answer: (C) — Risk Pooling.

4. The risk which deals with the portion of security's total variability of returns that derives from the possibility that the issue may be called or redeemed before maturity, is called:
   (A) Default Risk
   (B) Operational Risk
   (C) Industry Risk
   (D) Callability Risk

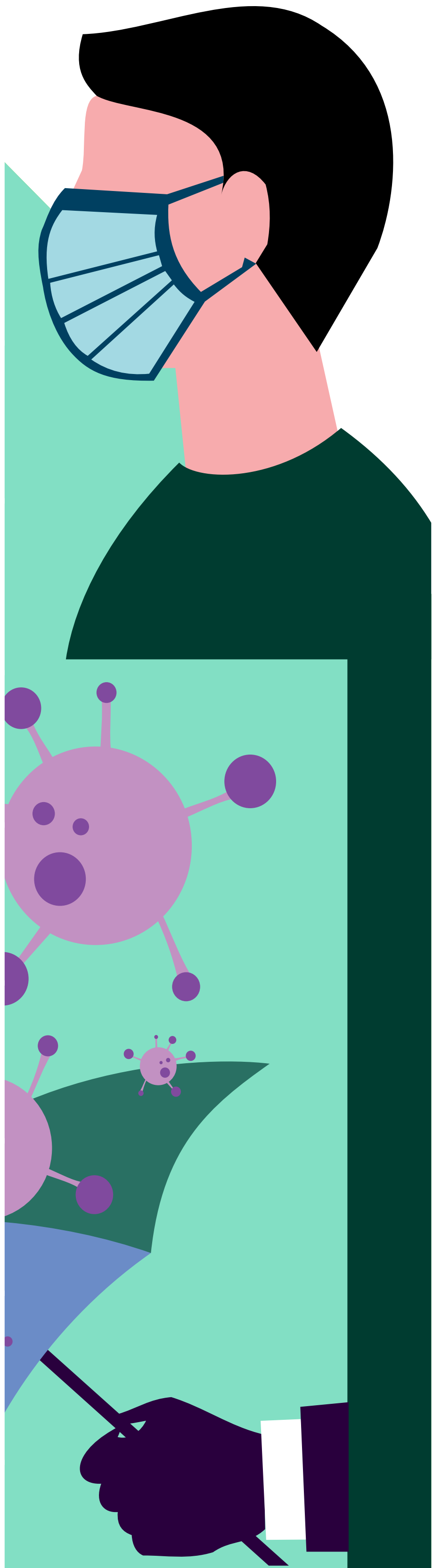
Answer: (D) Callability Risk

5. Which of the following is not a type of credit risk?
   (A) Default Risk
   (B) Credit Spread Risk
   (C) Intrinsic Risk
   (D) Basis Risk

Answer: (D) Basis Risk

Examination
RESCHEDULED TIME TABLE

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
20 th July, 2020 (Monday)	Corporate Laws & Compliance (Paper 13) (Group - III)
21st July, 2020 (Tuesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
22nd July, 2020 (Wednesday)	Strategic Financial Management (Paper 14) (Group - III)
23rd July, 2020 (Thursday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
24th July, 2020 (Friday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
25th July, 2020 (Saturday)	Cost & Management Audit (Paper 19) (Group -IV)
26th July, 2020 (Sunday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
27th July, 2020 (Monday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)



STAY HOME STAY SAFE

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

01 Read Study Notes, MTPs, E-Bulletin, Work Books, Attend Webinar sessions

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

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.

Respected Mam,

Myself **Shreekant Prasad,** CMA Final Student, bearing Registration No—**13081000017 and I have attended** CMA FINAL EXAM, DEC 2019,,

I am really thankful to you and our CMA INSTITUTE for the kind support and help to provide additional materials for exam preparation, like- Supplementary, Work book, MTP, and Supplementary in accounts Paper-17 and also addition materials for new patterns
and also- monthly Students final E bulletin, it was really helpful so much for final revision.

To mention, in this term November 2019 issue of E- bulletin was really useful. I, personally attempted 15 to 20 marks questions for December 2019 exam, from July to November 2019 editions of E- bulletin.(6 months prior to the exams, I followed)
For examples, some I am mentioning below:
In Paper-15, (SCM)..--time cost, project creasing-network diagram-(from Nov 2019 issue) and - marginal costing problem, of full marks, (from July 2019 issue) of E- bulletin.
In Paper 13.(CLC) questions covering from-corporate law--Companies Act short question, debentures , equity, etc.
In **Paper 14**,(SFM)--investment decision making and currency problem.., direct and indirect quotation ,(September 2019 issue of E- bulletin).
In Paper 19, (CAMA)- hospital audit, common question ,(from July 2019 issue of E- bulletin) and cost auditor's responsibility, professions ethics, auditor documents etc.
In Paper 17, problems on Amalgamation, hopefully helped to score.
In Paper 18,(ITP)- time of supply question in GST section (from-July 2019 issue of E- bulletin).

Please accept my humble acceptance, I am really thankful to all of them who work for our better future of our institute and also thanks to you mam....

HARE KRISHNA.

I attend CMA Final Exam, Dec 2019,
I really thankful to you and our CMA Institute. For kind support and help to provide additional material for exam preparation, Like - Supplementary, Work Book, MTP, and Accounts addition material for new patters and special - Monthly Final E-Bulletin. Its really help full so much for final revision. In this term November 2019 E-Bulletin, really use full. I personnel getting 15 to 20 marks common question for December 2019 exam form.

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

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

150 YEARS OF CELEBRATING THE MAHATMA

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.

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 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**

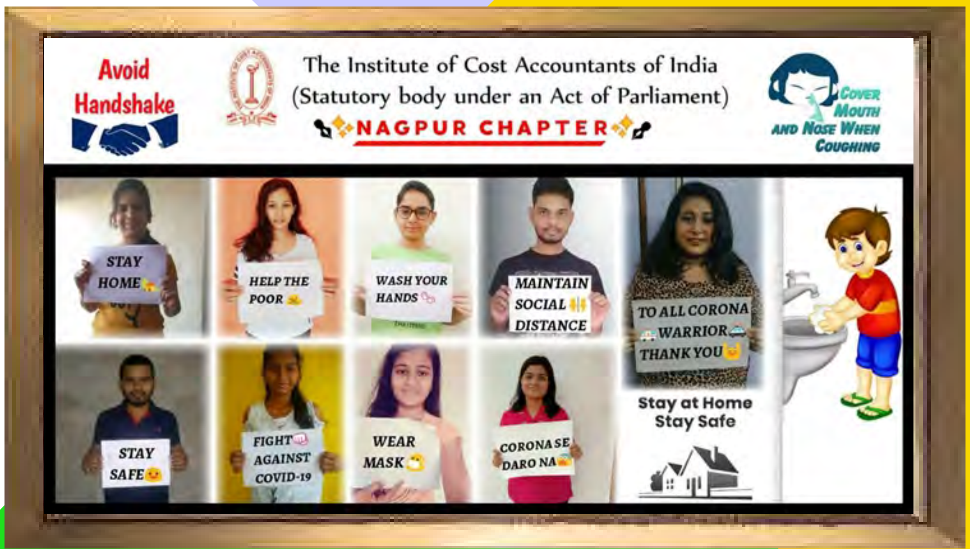
- Don't give up
- Don't give in
- Don't give out
You can win!

GOOD LUCK

Be Prepared and Get Success;

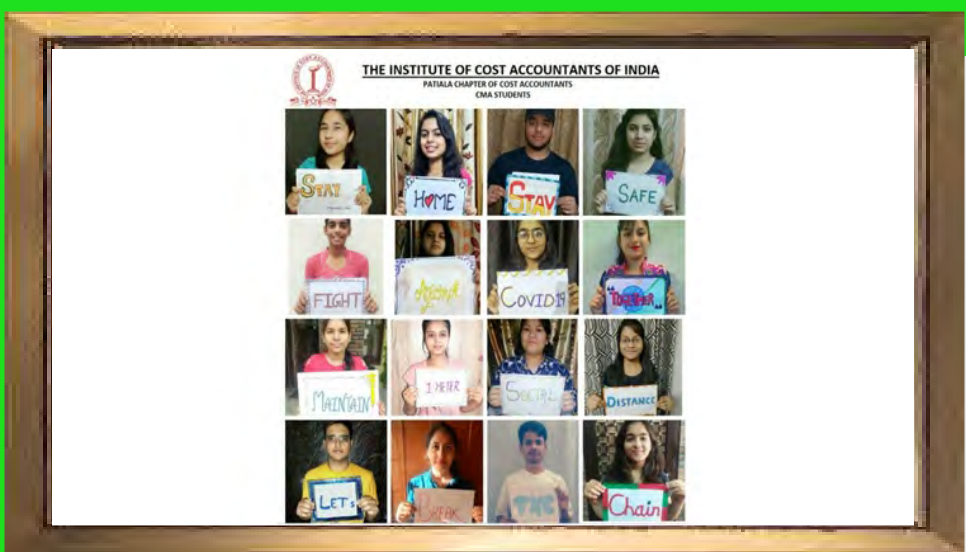
Few Snapshots

Message on COVID-19 from Students of ROCC Streamline Academy Thrissur



Nagpur Chapter initiative on COVID-19

Message on COVID-19 from Eastern India Region Student Fraternity.



Message on COVID-19 from Patiala Chapter of the Institute

Message on COVID-19 from Students, Staff, Members of Nellore Chapter.

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