CMA STUDENTS'

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

Message from the President

Dear Students,

"Education is the most powerful weapon which you can use to change the world."

— Nelson Mandela

" A Very Happy Healthy and Prosperous New Year" and hope you all are in a jubilant mood.

I am delighted to know that you have enjoyed reading the previous E-bulletin and reciprocated favourably. As an awakener my suggestion is, if you focus on results you will never change but if you focus on change, you will get results. So, from the beginning of this year, please try to stick to your own focus to get favourable result.

I strongly believe that the struggle you are in today is developing the strength you need for tomorrow. I sincerely request you that everyday do something which will inch you closer to a better tomorrow and eventually you may help the nation to build in. Push yourself because no one else is going to do it for you.

I am expecting that India will be one of the strong players in 'Digital India' movement in near future and my young friends will be the architect.

My sincere thanks to all the learned writers of this issue of the bulletin as, despite their busy schedules they have helped us to carry out this issue as well.

I pay my sincere thanks to all employees of the Directorate of studies for coming up with this timely issue.

I strongly believe in the words of Leonardo da Vinci that- "Study without desire spoils the memory, and it retains nothing that it takes in."

CMA Manas Kumar Thakur
President
The Institute of Cost Accountants of India

Be a CMA, be a Proud Indian

Message from the Chairman

At the outset; I wish you all A Very Happy New Year.

It is indeed a pleasure to note that you have enjoyed the first volume of the E-bulletin. Your new syllabus has been introduced in August, 2016 and in June 2017, for the first time under the new syllabus you will be appearing in the examination. So, from the very beginning you must be very careful and must try to appear for the examination with a positive mind and attitude.

"True guidance is like a small torch in a dark forest, it does not show everything once. But gives enough light for the next step to be safe" said by Swami Vivekananda.

The Directorate of Studies is trying to help in your preparation with this E-bulletin along with the other and existing resources like MTPs. Please try to gather knowledge from all the available resources provided by the Institute and try to make full-proof of your efforts.

Wishing you all the best,

CMA Pappa Rao Sunkara
Chairman
Training & Education Facilities (T & EF) Committee

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KNOWLEDGE UPDATE

In this section of e-bulletin we shall have a series of discussion on each of these subject 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 and Compliance (CLC)

Mr. Subrata Kr. Roy
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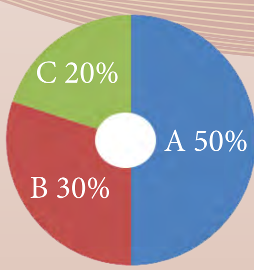
Your Preparation Quick Takes :

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



Learning Objectives

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

What students lack?

Problem	Solution
Clarity of knowledge	Repeated Reading
Expression while answering	Practice answers and check it with model answers
Irrelevant Answers	Answers should be relevant. Only what is asked for should be answered. Don't write whatever you know about the subject or topic

Here we are discussing about 'Management of a company'

Composition of Board of Directors

Board of directors is individual, and is defined as a person occupying the position of directory, by whatever name called. Director collective are called as board of director. Any persons who control the management of the company will be deemed as director, through his designation can be different.

Maximum no. of Directors –

in case of public limited company is 15. However any company may increase number of directors, with the permission of central court. There is no maximum specified for private company.

Minimum no. of Directors

– 2 (in the case of private company)

– 3 (in the case of public company)

No. of directors above 15 requires approval by special resolution of shareholders.

One director to be resident individual and at least one women director in case of listed company.

(Directors appointed by BIFR and Central Govt. shall not be counted for total number of directors.)

ROTATIONAL AND NON-ROTATIONAL DIRECTORS

At least 2/3rd shall be eligible to retire by rotation in every AGM.

Out of 2/3^{rd,} 1/3rd must retire in every AGM.

(Directors appointed by CG, BIFR, FI/Banks shall not be taken in to account for calculating the number of rotational directors)

Listed companies shall have 50% of the Board's strength as independent director if the chairman is executive and 1/3rd if chairman is non-executive.

Tenure of non-rotational director or full time director shall not be for more than 5 yrs.

KMP- Key managerial personnel in relation to a company means-

(i) the Chief executive officer or the managing director or manager.

(ii) the company secretary

(iii) the whole-time director

(iv) the Chief financial officer

(v) such other officer as may be prescribed

NATURE OF COMPANY MANAGEMENT:

Shareholders are the owners of the company. They can anytime decide to run themselves or may like persons to act on their behalf for management of the company and highest level of such inclusion of outside person is director, who will be member of the board of director.

Management powers to be exercised by:	Type of Powers	Reference
Shareholders	Powers not given/delegated to the Board of Directors.	Section 180 of the Companies Act, 2013 and Articles of Association of the company.
Board of Directors	All powers of decision making about the company unless reserved for the shareholders.	Section 179 of the Companies Act, 2013.
Chairman	Executive/ Non- Executive functions of the company. Chairing the Company meetings.	Section 104 of the Companies Act, 2013.
C.M.D	Exercises both Chairman and Managing Director's Power.	
Managing Director -Should be of 21-70 years -is an undischarged insolvent -has not suspended payment to its creditors -has not been convicted of any offence for a period of more than 6 months.	Has substantial powers of the management of the company. Works under the supervision and control of the Board of Directors.	Section 196 of the Companies Act, 2013.
Whole Time Director/ Functional Director	Full time employee of the company. Looks after specified functions of the company.	

Type of Directors	Appointing Authority	Situation of appointment	Tenure of Office
First Directors	Articles of Association	At the time of registration	Upto first AGM
Normal Directors	Shareholders in Annual General Meeting.	Normal	To retire on the basis of seniority
Additional Directors	Board of Directors	In between two AGMs	Till the next AGM or the last date in which the AGM should have been held whichever is earlier.
Alternate Directors	Board Of Directors	When the original Director is out of India for more than 3 months	Till the return of the original Director.
Directors appointed by Central Government	Central Government	Inspection and Investigation Oppression and Mismanagement	As per order
Director appointed by NCLT	NCLT		As per NCLT order.
Director appointed / nominated by Financial Institute/Government	Nominated by Financial Institute (Appointed by shareholders at AGM)	Company taken loan from the institution, equity investment in the company.	As per FI/ Bank
Independent directors (Section 149)	For all listed companies at AGM.	Paid up capital 10cr/turnover 100cr/outstanding loan 50cr.	5 consecutive terms but can be re-appointed by passing a special resolution.
Directors appointed by small shareholders.	Small shareholder who holds shares of nominal value of not more than twenty thousand rupees.	In AGM. Any listed company may or shall in case of notice by 1000 small shareholders(or 1/1oth of such category of shareholders having holding of face value of Rs. 20000)	Up to 3 years. Shall be rotational. Considered to be independent.

Group: III
Paper 14:

Strategic Financial Management (SFM)

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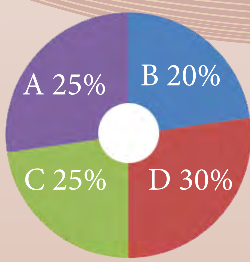
Your Preparation Quick Takes :

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 investment decisions under the condition of risk
- cognize the financial market and its different components
- compute the portfolio return and risk
- explain the short hedge

Strategic financial management is a mix of financial management and strategic management. It provides theories and techniques of finance and develops the ability of students to deal with their problems in the real life situations. The entire syllabus is divided into four parts: investment decisions, financial markets and institutions, security analysis and portfolio management, and financial risk management. Almost equal weight is given to each of the four parts and you are supposed to go through your study material very carefully. We will provide our brief guidance for these four parts separately.

Investment Decisions

The investment decisions are concerned with the selection of an investment proposal(s) and the investment of funds in the selected proposal(s). The finance manager generally makes long-term investment decisions about all types of fixed assets. In order to make investment decisions, a finance manager has to apply the investment principle which states that the firm should invest in assets and projects only when they are expected to earn a return greater than a minimum acceptable return. The finance manager should set the minimum acceptable return or hurdle rate to reflect the riskiness of the project with the hurdle rates that could have been earned elsewhere on similar investments.

In this section, you have got an idea of different techniques for evaluation of projects, capital rationing decisions, capital budgeting decisions under the condition of risk and leasing decisions. In order to know this present section more meaningfully, you must understand the basic concepts of time value of money and cost of capital respectively.

Maximum stress is to put on theoretical aspect of evaluation of risky proposals for investment decisions. In the context of capital budgeting decision, the terms risk and uncertainty are used interchangeably to refer to an uncertain decision making situation and it usually involves subjective judgments. There are three different perspectives for considering the risk of a capital budgeting project - (a) The single project's perspective (which considers each project as a stand-alone unit), (b) The company's perspective (that considers each project depending upon its contribution to the firm's total risk) and (c) The shareholders' perspective (which views each project according to its contribution to the riskiness of a shareholder's portfolio). In evaluating a capital budgeting project, finance managers often focus on project's stand-alone risk. The starting point for analyzing a project's stand-alone risk involves determining the uncertainty inherent in its cash flows. Analysts use various methods of assessing single-project risk and the methods are broadly classified into two categories - direct methods or quantitative techniques and indirect methods or general techniques .You have come to know about these methods in the Study Note - 2. Students are also suggested to give more stress on solving the exercise problem sets in different text books on these topics. Besides your study notes, you may go through the following references:

Kishore, R.M., *Financial Management*, Taxmann's.

Horne, V., *Financial Management and Policy*, PHI.

Financial Markets and Institutions

Finance managers do not operate in a vacuum and they make different financial decisions within a large and complex financial environment which includes financial markets, institutions, regulatory framework. Financial Markets can be considered as those centers and institutional arrangements that facilitate buying and selling of financial claims, assets, services and securities. In financial markets funds or savings are transferred from surplus units to deficit units. Financial markets may be classified as money market and capital market. Thus, you need to know the financial environment in which finance managers operate. Therefore, this section explains the markets where capital is raised and securities are traded as well as the institutions that operate in these markets. It also considers the functioning of commodity market.

This section is mainly theory oriented and students are advised to give more stress on conceptualizing the different concepts like hedge funds, rolling settlements, depository system, IPO, crediting rating, commodity futures etc. In mutual fund sub-section, much stress is to put on the practical aspect, particularly on NAV calculation and performance evaluation of mutual funds. Besides your study notes, you may go through the books mentioned below:

Pathak, B.V., *The Indian financial System: Markets, Institutions and Services*, Pearson.

Fabozzi, F.. J.,Modigliani, F., *Capital Markets: Institutions and Instruments*, Prentice Hall, NJ.

Security Analysis and Portfolio Management

This section covers two principal topics of traditional investments course, namely security analysis and portfolio management. Security analysis involves estimating the merits of individual security, whereas portfolio management concerns the construction and maintenance of a collection of securities. In your study notes, the discussion of security analysis has been made from two angles: fundamental analysis and technical analysis. Fundamental analysis has been described as a three –step process: economy, industry and company which is often called EIC analysis. These sub-sections are mainly theory oriented, however, sub-sections consisting of portfolio management part are mainly problem oriented but it requires a basic knowledge of statistics, namely, expectation, variance, covariance, correlation etc. Let us give an example to compute portfolio return and portfolio risk.

Example

You can choose to invest in two shares, A and B.

	E(R)	σ
A	10%	10%
B	15%	20%

The correlation between the returns on the two shares is 0.15. Your portfolio consists of 100 A shares and 50 B shares. The current price of A is 50 and the current price of B is 100. Calculate the expected return and standard deviation of the portfolio.

Solution

The total value of your A shares is 100 x 50 = 5000. The total value of your B shares is 50 x 100 = 5000. Your total wealth is the sum of these values, 10000. The fraction of your wealth invested in the each share, or portfolio weights, is a half for each asset:

$$W_1 = W_A = \frac{5000}{10000} = \frac{1}{2}$$

$$W_2 = W_2 = \frac{5000}{10000} = \frac{1}{2}$$

Covariance between A and B (σ_{12}) = ρ_{12} x σ_1 x σ_2 = 0.15 x 10 x 20 = 30

The expected return and standard deviation of the portfolio is

$$E(\widetilde{R_P}) = W_1 E(\widetilde{R_1}) + W_2 E(\widetilde{R_2}) = (\tfrac{1}{2} \text{ x } 10\%) + (\tfrac{1}{2} \text{ x } 15\%) = 12.5\%$$

$$\sigma^2 (\widetilde{R_P}) = w_1^2\sigma_1^2 + w_2^2\sigma_2^2 + 2w_1w_2\sigma_1\sigma_2\rho_{12}$$

$$= 0.5^2 . 0.1^2 + 0.5^2 . 0.2^2 + 2.0.5.0.5.0.1.0.2.0.15$$

$$= 0.014$$

Therefore, $\sigma (\widetilde{R_P}) = \sqrt{\sigma^2 (\widetilde{R_P})} = 11.83\%$

Students are recommended to give more stress on solving the practical problems in different text books along with the problems available in your study notes. You may also consult the following books:

Fisher, D.E. and Jordan, R.J, *Security Analysis and Portfolio Management*, Pearson.

Bhalla, V.K., *Investment Management*, S. Chand & Co.

Financial Risk Management

This section mainly includes two broad topics: financial derivatives and operations of foreign exchange market. In your study notes, besides theoretical discussions, there are a good number of solved problems. You can also go through these solutions for selecting the types of problems required to be solved from the different text books in these topics. You are also supposed to read one international level text book, Options, Futures and Other Derivatives, written by J. C. Hull. In this section we would like to confine our guidance on short hedge.

Short hedge is a hedge that involves a short position in futures contracts. For a short hedger, who is currently long in the spot market or has an obligation to sell in the future time at an unknown price, a loss in the cash market would result when the prices do fall, but a gain would occur due to the short position in futures. Of course, the prices may rise also. In that case, a gain in the spot market will result but, simultaneously, a loss would be sustained in the futures position.

Illustration

Suppose, on 5th April, 2010 Mr. X has a portfolio of equities valued at Rs.1,000,000 which is to be liquidated in the near future. Mean while, prices of the scrips may go down, which will result in certain disadvantages to Mr. X and he wishes to avoid it and the current SENSEX is 2000. To protect the portfolio's value, today, Mr. X can sell 20 index futures of equivalent amount (say, at a price of 2000 each and contract multiplier is Rs.25). Thus, he has committed himself to the notional sale of Rs. 1,000,000 (20 * 2000 * Rs. 25) of stock on the June delivery date at the level of equity prices implied by the futures price on 5 April. On 10^{th} May, 2010 the portfolio holder feels that the fall in equity prices is complete and SENSEX has fallen to 1900. Correspondingly, the value of the portfolio has declined to Rs. 9,50,000. Thus, loss on the portfolio is Rs. 50,000. Mr. X closes out the futures position by buying 20 June index futures at a price of Rs. 1900. The notional buying price of each contract is thus 100 below the notional selling price. Accordingly, gain from futures trading is Rs. 50,000 (20 * 100 * 25). If SENSEX had risen, there would have been a cash market gain offset by a futures market loss.

Group: III
Paper 15:

Strategic Cost Management-Decision Making (SCMD)

CMA Gautam Mitra,
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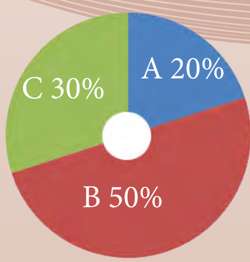
Your Preparation Quick Takes :

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?

Dear Students,

Only in June 1987 term I was a student of our beloved Institute. Even after 30 years I remember my failures and success, pains and gains at the end of each term. I find myself fortunate enough to go back to your study table and discuss with you.

From June 2017, you are to answer 100 marks question paper in relation to latest developments in the areas of Cost Accounting and must be prepared to solver exciting numerical problems on decision making. Marginal costing has no substitute but you must be prepared for different OR techniques which effect your decision making process in manufacturing or service providing company. In my opinion, you are fortunate that you may avoid Business Strategy areas which, I believe is far more complex and subjective than this technically sound and well tested technical area.

First, I introduce the ***syllabus***.

Strategic Cost Management-Decision Making is a full course of 100 marks. It is divided in 3 sections. Section A deals with Business Strategy and carries 20% weighatage.

Section B offers Strategic Cost Management Tools and Techniques and carries 50% weighatage. Section C refers to Application of Statistical Techniques in Business Decisions. It carries 30% weighatage. Weighatage is important to guess marks coverage in respective portion.

Section A: Business Strategy area deals with 2 broad areas. It offers new developments in Cost management like Life Cycle Costing, Target Costing, Kaizen costing etc. At the same time it offers basics of cost reduction and cost control and gives an insight into techniques of cost reduction programmes.

Section B has 4 parts. Part 1;Decision making Techniques ; It deals with various Decision Making Techniques starting with Marginal Costing, Transfer pricing, Relevant cost analysis and product wise, segment wise and customer wise profitability analysis .Part 2 Standard Costing in Profit Planning. It further includes Uniform costing and Interfirm comparison. Part 3 Activity Based Cost Management-Just in Time and Enterprise Resource Planning and Part 4 deals with Total Quality Management.

Section C deals with 6 Operation Research and Statistical Techniques in Decision making viz. Learning Curve, formulation of linear programming, assignment and Transportation Problems, Simulation and network analysis.

Before I go into details of syllabus, I recommend ***3 books*** in addition to study material for the students.

Author	Title
John K Shunk and Vijay Govindarajan	Strategic Cost Management
Gary Cokins	Activity Based Cost Management Making it Work
Tim McCormack & Dermot Duff	Strategic Cost Reduction

Now let us try an *overview of the course on Strategic management*. Let's begin with some obvious questions.

- What is strategic cost management?
- What are the concerns and objectives of strategic cost management?
- What are the pillars of the strategic cost management-framework?
- To what degree do these pillars contribute to strategic cost management?
- What are the relationships between these pillars?

This course offers a unique opportunity for our students to learn cost accounting-based management practices and strategies for making smart business decisions that justify outcomes and create value. Whereas financial accounting is used primarily to communicate the overall results for an entire organization to external parties, strategic cost analysis helps you answer the granular, day-to-day questions: How much does this product cost to make? How should I price this service? How do I use the budget process to help me plan better in the first place? How do I evaluate the performance of my employees?

How to Prepare for Section A: Business Strategy

Students are not required to study *'Business Strategy'* as the title of the section suggests. The first name that appears to our mind in connection to 'Business Strategy' is Michael Porter. No, you are not supposed to go to that direction.

First 49 pages of the study material will take you to many unexplored areas like 'Lean accounting', Back-flush Accounting, Throughput Costing etc. It will give you 5 specific distinctions between cost reduction and cost control (P-48).

Some important sums on (i) Life cycle costing, (ii) Target costing, (iii) Kaizen Costing etc. are solved in the fast few pages. Those must be solved along with other solved problems from CIMA study guide on Business Strategy. One such study kit is available at the Members Library, at 12, Sudder Street. CIMA books may also be purchased from Kaplan, official publisher of CIMA. The study material is quite rich both in text as well as numerical problem-solutions. Students are also advised to the core concepts of new dimensions of SCM like Socio Economic Costing, Business Process Re-engineering, Value Analysis and value Engineering.

How to Prepare for Section B: Decision Making Techniques

This 100 pages study material of our institute is really exciting. We all have studied marginal Costing and Transfer pricing before. But uniqueness of this portion of our study material lies with numerical problems and solutions. Students are strongly advised to solve each and every problem manually. First they must try to solve without going through the solution. After solving it they must check with the answers given in the study material. Practicing huge number of problems has no alternative. It is further advised to go for last 5 years questions and answers of different professional bodies like ICAI, ICSI, CIMA and ACCA etc. However, before attempting sums, they must revive their core concepts like (i) segregation of total cost into variable and fixed, (ii) PV ratio etc. Sometimes it is found that students fail to distinguish between concepts like total contribution and contribution per unit or contribution per key factor. Not only for SCM, for all paper it is crucial that you prepare your basics tight.

Review of past question papers

One difficulty, with which final students may proceed towards June 2017 term, is change of structure and syllabus along with the title of the paper. In this situation it is difficult to guess the possible structure of questions which may be asked in June 2017 term. But in this situation, when previously asked 50 marks question (Section B only) is going to be converted into full 100 marks question we strongly advise students for June 2017 term to consider following points;

- Give little importance to first part (Section A) of your previous terms question paper, (viz. 2014 June to 2016 June) as it refers to Business Strategy which is no longer applicable in your term.

- Write 3-4 pages write up from your memory on issues like Life cycle costing, Back flush Accounting. I strongly advise you to practices 3-4 numerical problems either from your study material or from any other sources. Wikipedia is must on any topic. If you have time listen to lectures of video tutorials from distinguished professor. Pls remember, you never understand a topic or an issue in Strategic Cost management unless it is supplemented by numerical problem solution. Practical relevance could be understood only from case study.

- Decision making by applying marginal costing and transfer pricing techniques must be mastered. Solve all past terms question papers. A question paper of similar terms of other professional bodies is of tremendous importance in order to understand the current trends.

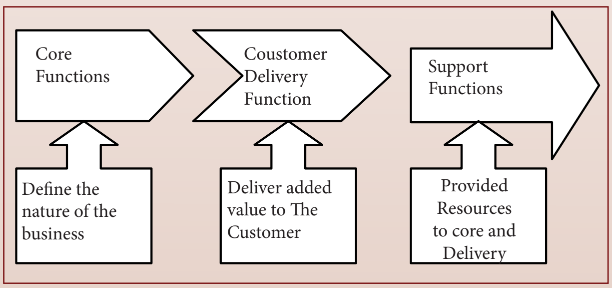
- Variance analysis through standard costing is a must read. It is difficult for a question setter to avoid this area. You can never remember differenent formulas for computing different variances, like efficiency, idle time, revised mix etc, unless you practice huge number of sums. It is possible that you get puzzled by different variations in a single formula. However, solving different sums from different books will give you the right insight ***as no standardized set of formulae on standard costing*** have ever been evolved.

- In order to under to understand Activity Based Cost Management, it is most important to understand cost drivers first. Significant part of Activity Based Cost Management is to understand the basis of allocation of overhead with respect to cost drivers. Pls read any standard text like Horngreen to understand the basic concept followed by solving numerical sums.

- As in new syllabus 6 distinct areas are there, questions are like to come from all areas. Section 5 deals with Pareto analysis, TQM etc offers exciting chances before students to explore in their new dimensions of statistical skills.

- Last but not the least, this is an opportunity to brush up your old Operation research techniques like linear programming, simulations, PERT/CPM etc. We all know software does all kind of solutions now a days but only when you may fix up your right model with reasonable constraints and assumptions. Do not ignore basics like assignment or transportation areas. These are the areas where you may score 100% marks.

Finally, work with love! Enjoy your study! Wish you best of luck.



Group: III
Paper 16 :

Direct Tax Laws & International Taxation (DTI)

CMA Shubhayan Basu
Associate Prof. and Head,
Dept. of Commerce,
Ananda Mohan College, Kolkata
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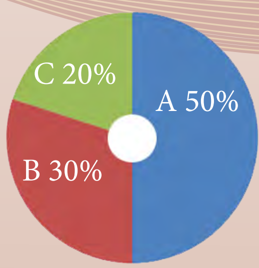
Your Preparation Quick Takes :

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



Learning Objectives:

- Identify the key concepts and functions of direct tax.
- Describe how uncertain tax positions are accounted for under different sections provided for,
- Evaluate tax case laws
- Apply tax concepts to everyday business activities,
- Gradually learn how to prepare and file tax returns.

Double Taxation Avoidance Agreement (DTAA)

A cross border commercial relationship between residence assesses of two countries would result in income arising to one or both the person related to transaction. As a result the assessee may have to pay tax in relation to such transaction either in one country or in both the countries. A person is subject to tax in a country due to presence of connecting factors. Broadly there are two method of taxation (a) residence based where the connecting factor is residence and (b) source based where the connecting factors is income. Hence an income can be taxed twice on the basis of residence and source. As per example an ordinary residence in India have income in France has to pay tax in India on the basis of residence and in France on the basis of source of income.

There are two kind of double taxation

(1) Juridical Double Taxation: where a person is taxed in more than one jurisdiction.

(2) Economic Double Taxation: where two different person are taxed for the same income. Example Section 40 A (2) and 40 A (3).

Double Taxation Avoidance Agreement - A Brief Concept: In order to avoid double taxation of an income, Government of a country can enter into an agreement with Government of other countries. DTAA is an agreement between the two countries to avoid the taxation of same income twice. DTAA is also known as double tax convention. Government of India entered to tax treaties with about 79 countries. DTAA consider juridical double taxation.

A DTAA may be

(a) Comprehensive which consider all possible sources of income.

(b) Limited which deals with certain source like income from operation of ships or aircraft.

The recent cross border transfer of capital, technology, and human resource lead to frequent worldwide application of DTAA in relation to determination of tax payable by an assessee. DTAAs are drafted with certain major models like OECD models United Nation model or U.S. treasury model etc.

Elimination of double taxation: *A DTAA incorporates the mechanism for elimination of double taxation under which an assesses in entitled to claim relief in the country of residence as far its own tax provision. The following methods are available for elimination of a double taxation.*

(A) Exemption methods

(i) **Full exemption**

(ii) **Exemption with progression**

(B) Credit method

(i) **Full credit**

(ii) **Ordering credit**

Besides there are also underlying tax credit and tax sparing method under credit method.

Double Taxation Relief under Income Tax Act 1961

There are two types of relief available under Income tax Act,1961

(1) *Bilateral Relief (when there is DTAA between India and concerned country)*

(2) *Unilateral Relief (when there is no DTAA between India and concerned country).*

It is important to note the provision of DTAA overrides the provision of Income Tax Act to extent these agreements are more favorable to the assessee. CIT vs. ITC Ltd. (2002)

The reliefs are discussed under

(a) Bilateral relief Section 90 Agreement with foreign countries or specified territories

(A) Exemption method:

(1) *Full exemption* - Foreign income are not taxable in India.

Steps to be followed

(1) Compute Tax on Total Income (excluding foreign income)
(2) Compute tax on foreign income
(3) Total tax payable 1+2

(2) *Exemptions with progression* – Foreign income are included for rate purpose.

Steps to be followed

(1) ***Compute tax on total income (included foreign income)***

(2) ***Compute average rate of tax (Tax payable x 100 / total income)***

(3) ***Tax payable = Taxable Indian Income x Average rate of tax computed***

Illustration 1:

Particulars	Amount
Taxable income in India (residence country)	*Rs.6,00,000*
Taxable income in country P (source country)	*Rs.1,00,000*
Tax rate in country P	*20%*

Compute total tax payable under full exemption methods and exemption with progression methods.

Solution:

Assuming India has DTAA with country P

(a) **Full Exemption method:**

Tax on Rs.6,00,000 = 25,000+20,000 = Rs.45,000

Tax on Rs.1,00,000 = Rs.1,00,000 x 20% = Rs.20,000

Tax payable = Rs.45,000 + Rs.20,000 = Rs.65,000

(b) **Exemption with progression:**

Tax on Rs.6,00,000 + Rs.1,00,000 = Rs.65,000

. Average rate of tax = (Rs.65,000 / Rs.7,00,000) x 100 = 9.29%

Tax Payable Rs.6,00,000 x 9.29% + Rs.20,000 = Rs.75,740.

(B) Credit method: Tax is charged in both the countries as per respective tax laws. However, residence country allows credit for the tax in source countries.

Steps

(1) ***Compute tax on total income including foreign income***

(2) ***compute tax on foreign income***

(3) ***Tax payable 1-2***

Illustration 2:

Particulars	Amount
Taxable income in India (residence country)	*Rs.6,00,000*
Taxable income in country P (source country)	*Rs.1,00,000*
Tax rate in country P	*20%*

Compute tax payable under credit method.

Solution

Tax on Rs.6,00,000 + Rs.1,00,000 = Rs.65,000

Tax on Rs.1,00,000 = Rs.20,000

Total Tax payable Rs.65,000 – Rs.20,000 +Rs.20,000 = Rs.45,000

Section 90 A – Agreement between specified associations

Any specified association in India can enter into an agreement with any specified association in the specified territory outside India and Central Government may grant relief in respect of Double Taxed Income.

Unilateral Relief

Section 91 – Relief when there is no DTAA

The benefit of relief under section 91 is allowed to an Indian resident on double taxed income provided tax is paid in the foreign country.

Steps:

(1) ***Calculate tax on total income***

(2) ***Calculate average rate of Indian Income Tax***

(3) ***Calculate average rate of foreign income tax – (tax payable in foreign countries / foreign income) x 100***

(4) ***Relief under section 91 = (lower of 2 & 3) x double taxed income***

(5) ***Taxable payable = 1-4***

Illustration 3:

Particulars	Amount
Taxable income in India (residence country)	*Rs.6,00,000*
Taxable income in country P (source country)	*Rs.1,00,000*
Tax rate in country P	*20%*

Compute total tax payable assuming India has no DTAA with country P

Solution:

Tax on total income of Rs.7,00,000 = Rs.65,000

Average rate of tax in India = (Rs.65,000 / Rs.7,00,000) x100 = 9.29%

Average rate of tax in country P = 20%

Relief under section 91 = Rs.1,00,000 x 9.29% = Rs.9,290

Total tax payable = Rs.65,000 – Rs.9,290 + Rs.20,000 = Rs.75,710

[Note: However the following points need to be considered

A. Relief under section 91 is available only in case of doubly tax income after deduction under chapter VI A .

B. If an assessee earns income in more than one foreign country, relief under section 91 is to be computed country wise and not on the basis of aggregate income of all the foreign countries.]

All illustration are solved without considering CESSES

Group: IV
Paper 17:

Corporate Financial Reporting (CFR)

Dr. Satyajit Dhar
Prof., Department of Business Administration
University of Kalyani W.B.
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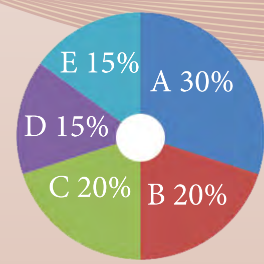
Your Preparation Quick Takes :

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



Learning Objectives:

This paper is having a broad based content to cover many aspects of corporate financial reporting. Corporate financial reporting is becoming complex day by day as we are gradually shifting to rule based approach from principle bas approach. The syllabus is well designed an it covers core aspect of financial reporting i.e. measurement of income and cash flow of along with reporting of financial position of the company. Furthermore, there is stress on supplementary disclosure aspects like value added statement, human resource accounting related reporting, sustainability reporting etc.

Overall, the paper is application oriented and demands high level of conceptual, analytical and application related skill from students. Accounting is core of this paper. Students not having accounting or commerce background should give special stress in this paper.

Concentration Strategy

There is little scope of selective study in this paper. Nevertheless, a student may consider following topics in order of priority. It is assumed that a student has basic expertise to attempt a B.Com(Hons) level accountancy course.

1. Accounting Standards- basic issues and application aspects
2. Accounting for Business Combinations
3. Consolidated Financial Statements
4. Share-based Payments
5. Value Added Statement
6. Human Resource Accounting
7. Financial Instruments
8. Government Accounting Standards

Theory vs. Practice:

This paper is practical paper and theoretical questions are expected from government accounting part. However, a student may not attempt practical questions properly, unless she has conceptual clarities about relevant accounting standards. Standard textbooks on accounting standards should be referred to and stress should be given on application of standards in business situation.

Problem Areas and Combat Techniques:

Major problem area is lack of holistic learning. For example, one knows amalgamation accounting as a technique of accounting but not clear about related accounting standard or one knows journal entries relating to share buyback but lacks clear understanding about provisions of the Companies Act, 2013.

The issues that require attentions are:

- Latest developments in Regulations
- Annual Reports and its content
- Provisions of the Companies Act on Accounting and financial reporting
- Clear understanding about Schedule II and Schedule III of the Companies Act, 2013

There is no short cut in accounting related paper as solution to a problem on accounting cannot be memorized. Hence, one should herself solve the problems of the past examinations and thereafter, one should compare her answer with that given in the suggested answers. Repeated practice is very important to score good marks in this paper. In the next section conceptual issues related to a complex topic, i.e., Share-based payments are discussed. The last section concludes the write up with certain tips on facing the examination.

Share-based Payments:

Before attempting problems on share-based payments, students are advised to have conceptual clarity about share-based payments. The primary logic behind the use of employee stock options (ESOs) is to create goal congruence between the objectives of the shareholders and the managers; both are rewarded if the price of the share increases during the stock option vesting period. Share option schemes induce employees to remain with the firm for long term. Among the share-based payment plans, a few important plans are described below.

Employee Stock Option Plan **(ESOP)** - ESOP is a stock option plan, which gives employees the right to acquire shares of the company in future at a pre-determined price, even if the fair market value of the stock has increased from that option's grant price. Often, companies will require the employee to hold the allotted options for a period of time before being exercised. Typically, the options are non-transferable, excepting in the event of death, etc. The company either allots fresh shares or buys them in the market by treasury operation. Any time after the exercise, the employee can sell the stock. In case of cashless option, the employee does not pay for the share but realizes the net gain on the date of exercise.

Employee Stock Purchase Plan (**ESPP**) - ESPPs are systematic investment plans where the employee acquires the shares after a specified period, upon contribution to the share price in monthly installments. At the end of the offering period, contributions are accumulated and used to purchase shares at a discount, say 10% of the lower of the market price on the opening or closing date of the offer period as per the plan. If the employee does not remain with the company till the date of allotment, he loses his right to acquire the shares and is eligible for refund of his contribution. The employee can sell the shares acquired under ESPP at any time after expiry of lock-in-period.

Restricted Stock Units (**RSU**) - Under this scheme, the employer company makes an unsecured promise to the employees to transfer shares free of cost at the end of a designated period and after fulfillment of certain conditions like, achieving the targets, continuation of employment etc. After allotment, the employee can sell the shares in the market.

Stock Appreciation Rights (**SAR**) - In SAR scheme, compensation is made in cash, based on the price increased of the share during a certain period. Actually, under SAR, appreciation in stock price between the date of grant and the date of exercise is delivered to the employee in cash.

There are some other less frequently used programmes like Performance Share Plan (PSP), performance Unit Plan (PUP), Deferred Compensation System (DCS).

Facing the Examination:
In a professional examination answer should be brief and to the point. Furthermore, sketchy answer should be avoided.

Time management is key to score good marks in a professional examination. In a paper of 100 marks with 3 hours duration one gets 1.5 minutes for writing each one mark question (30 minutes being allowed reading of the question paper, checking revision etc.). Hence, a question of 10 marks has to be complete in 15 minutes. If an examinee finds that allotted time is exhausted, one should try to attempt the next question irrespective of completion of answer of previous question. Answering the full paper is of paramount importance for success in examination.

Last but not the least, check your answers for minor mistakes or omissions(e.g., not mentioning the question number, casting mistake, putting wrong answer at the end etc.)in last 10 minutes.

Best of everything lies ahead. Nothing succeeds like success.

Group: IV
Paper 18:

Indirect Tax Laws & Practice (ITP)

Ms. Poushali Das
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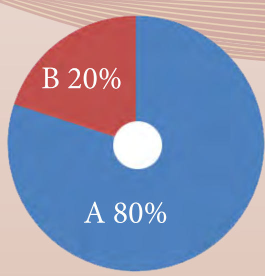
Your Preparation Quick Takes :

Syllabus Structure
A Advanced Indirect Tax - Laws & Practice **80%**
B Tax Practice and Procedures **20%**



Learning objectives:

- the concept of tax and the objective for its levy
- the concept of direct and indirect tax and the differences between the two
- the basic features of indirect taxes
- what are the principal indirect taxes
- as to how the indirect taxes are administered in the country

West Bengal Value Added Tax

Note to the Student- Both the knowledge of VAT & Sales tax is important but you should be aware why VAT is gaining more importance. Apart from the definitions given you should know the difference in price that arises due to the implementation of VAT or Sales tax

Value Added Tax (VAT) is an indirect tax where trader does not pay tax from his pocket but collects it from customers. It is paid at each point of sale of goods where value is added starting from primary production to final consumption. VAT is often termed as a Multi-point tax as at each value addition, tax is charged on output price and credit is given for tax paid on input price.

VAT was applicable on Excise duty in the form of MODVAT (modified VAT) and then applicable in the field of Excise as CENVAT (Central value added Tax). VAT was introduced replacing the State Sales Tax. Different states were charging different rates of sales tax and as a uniform standard VAT were enforced.

Features of VAT

I. It is an indirect tax and a form of sales t.
II. It is paid at each point of sale of goods were there is a value addition.
III. VAT is not paid by the trader but is collected from the customers, therefore at each point of value addition tax is charged to output price and credit is given for tax paid on input price.
IV. It eliminates the cascading effect of tax and targets not only sales tax evasion but also income tax evasion.

VAT eliminates the ***'Cascading Effect'*** i.e in case of Sales Tax; tax is paid on input as well on output. For single product consumers pay more than once on value of the product.

Example- Mr. X manufactures a computer by assembling its various parts. He bears sales tax when he purchases several parts. Further, when such taxed parts are assembled and converted into a new output then further tax is paid on such a new product. However, in case of VAT, when Mr. X pays tax on the assembled computer he gets deductions on his input tax. In such a manner the cascading effect is eliminated through VAT system.

Difference between VAT & Sales Tax

Points of difference	VAT	Sales Tax
1. Stage of tax	It is a multi-point tax	It is a single point tax
1. Effect on price	Price will be low due to the elimination of Cascading effect.	Higher incidence of price due to cascading effect.
1.Tax rates	It is almost uniform across the country.	Different states have different sales tax rate.
1. Additional tax	VAT is a single tax and there is no surcharge or additional tax.	Sales tax might be overburdened by surcharge and additional tax.

A case study to show the difference in tax calculation for VAT & Sales Tax:

A produces a product X with exempted raw material and B produces a product Y with raw material X. Tax rate on X & Y is 5%.

Particulars	Dealer A	Dealer B
Raw materials	Exempted goods	X
Finished goods	X	Y
Cost of raw materials	100	262.50
Conversion of cost (including profit)	150	200
Tax rate on output	5%	5%

Amount charged under Sales tax system

Particulars	Dealer A	Dealer B
Cost of raw material	100	262.50
Less- input tax credit	NA	NA
Net raw material cost	100	262.50

Particulars	Dealer A	Dealer B
Add- conversion cost	150	200
Total cost	250	462.50
Add- Sales tax (5%)	12.50	23.13
Total Selling price	262.50	485.63

Amount charged under VAT system

Particulars	Dealer A	Dealer B
Cost of raw material	100	262.50
Less- input tax credit	Nil	(12.50)
Net raw material cost	100	250.00
Add- Conversion Cost	150	200
Total Cost	250	450.00
Add- Sales tax (5%)	12.50	22.50
Total selling price	262.50	472.50

Difference in price charged:
Price charged under Sales Tax – 485.63
Price charged under VAT _(472.50)
Reduction in price 13.13

<u>Incidence of Tax [sec 10]</u>

Following dealers are liable to pay VAT:

Section	Dealer	Liable to pay VAT
10(3)	Every dealer	All his sales of goods imported by him from any other state apart from West Bengal, with effect from his first sale and following the date on which his sales exceed the taxable quantum.
10(4)	Every registered dealer	All his sales from the date of his registration as a dealer.
10(7)	Every dealer who is liable to pay tax under the Central Sales Tax	All sale of goods effected by him on and from the date on which he becomes liable to pay tax under that Act.

Group: IV
Paper 19:

Cost and Management Audit (CMAD)

CMA S SSonthalia
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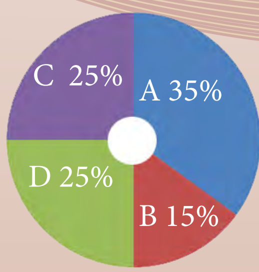
Your Preparation Quick Takes :

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

Understanding Cost Accounting Standards for Maintenance of Cost Records and Cost Audit

Introduction

The Govt. of India (GOI) has the power to prescribe rules for cost audit and maintenance of cost record as per sub-sections (1) & (2) of section 469 of Companies Act 2013. By exercising such power, the GOI in response to Sec. 148 of the Companies Act, 2013, has, by notification No. G.S.R. 425(E), prescribed the rules relating to cost records and cost audit viz – Companies (Cost Records & Audit) Rules, 2014 (hereinafter referred as CRAR,2014). The Rule 5 of such rules mandate the maintenance of cost records.

As per sub-rule 2 of Rule 2 of the CRAR,2014 – The cost records are to be maintained as to facilitate calculation of :

- The Cost of Production
- Cost of Sales and
- Margin

The Cost sheet is finally drawn based on the cost records maintained to arrive at the cost of production of any product or any service. The cost sheet contains various elements of cost, sales realisation and margin. To arrive at true and fair view of cost of production and to calculate various elements of cost correctly and to maintain the cost records, as well as audit thereof,**it is highly desirable to have proper understanding of cost accounting standards issued by the Institute.** The Institute as on date has prescribed 24 cost accounting standards as discussed in the subsequent paragraphs.

Observation & Analysis

The member of the Institute and the Cost Auditor is duty bound to follow principles of Cost Accounting Standards and in case of deviation to report the same.

Further the Cost Auditing Standard 3 - **Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit**also require that a Cost auditor shall obtain reasonable assurance that cost statements as a whole, are free from material misstatement and are prepared in accordance with the applicable Cost reporting framework, **Cost Accounting Standards(CAS)** and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute.

Some of the common features of cost accounting standards followed for the preparation of cost records are given as follows:

- Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of production or service.
- Any abnormal cost where it is material and quantifiable shall not form part of the cost / overhead.
- Finance costs (cost incurred for arrangement of funds) incurred in connection with procured or self-generated resources shall not be included in any cost element but shall be separately disclosed in the cost sheet under the head named – Interest & Financial Charges.
- Any recoveries made from any particular cost element shall be adjusted from the particular cost element and the net cost shall be taken in the cost sheet.
- Imputed costs or Notional costs not involving any cash outlay shall be excluded from the cost element.
- Subsidy/Grant/Incentive and any such payment received/ receivable with respect to any material shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are related.
- Any change in the cost accounting principles and methods applied for the measurement of each cost shall be disclosed in the annexure to be prepared by the company.

The Cost Accounting Standards provides the Principles of Measurement of each and every cost component of cost and its presentation.

CAS 1 – Classification of Cost (Released on April 2002 & Revised on 2015)-Applicable from 01.04.2010)

- Objective of this standard is to bring uniformity and consistency in the principles of Classification of Cost.

CAS 2 – Determination of Capacity (Released on January 2003 & Revised on 2012) -Applicable from 01.04.2010

- Capacity shall be determined in terms of units of production or equivalent machine or man hours.
- Cost of production to be calculated at normal capacity

CAS 3 – Overheads (Released on January 2003 & revised on 2011)- Applicable from 01.04.2010

- Overheadsrepresents indirect expenses such as Indirect materials, Indirect employee costs and Indirect expenses.
  Overheads are classified on the basis of functionsi. eProduction Overheads, Administrative Overheadsand Selling & Distribution Overheads) andon the basis of behaviour viz. Variable overheads, Semi-variable overheads and Fixed overheads.

CAS 4 – Cost of Captive consumption (Released on January 2003)- Applicable from 01.04.2010

- The purpose of this standard is to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption and for valuation under Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000.
- Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s).

CAS 5 –Determination of Average (Equalised) Cost of Transportation (Released on July 2005)- Applicable from 01.04.2010

- Equalized transportation cost means average transportation cost incurred during a specified period. The Transportation cost for inward materials and for outward materials to be recorded separately.

CAS 6 – Material Cost(Released on December 2008)- Applicable from 01.04.2010.

- Material for the purpose of this standard includes raw materials, process materials, additives, manufactured / bought out components, sub-assemblies, accessories, semi-finished goods, consumable stores, spares and other indirect materials. This standard does not deal with Packing Materials as a separate standard is being issued on the subject.
- The Standard deals with the following issues.
    - Principle of Valuation of receipt of materials.
    - Principle of Valuation of issue of materials.
    - Assignment of material cost to cost objects.

CAS 7 – Employee Cost (Released on September 2009)- Applicable from 01.04.2010.

- Employee cost represents benefits paid or payable for the services rendered by employees (including temporary, part time and contract employees)of an entity. It is ascertained taking into account the gross pay including all allowances payable.
- Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortised over the period benefitting from such costs.

CAS 8 – Cost of Utilities(Released on September 2009)- Applicable from 01.04.2010

- Utilities are significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.Each type of utility shall be treated as a distinct cost object for accumulation of cost and its apportionment.

CAS 9 – Packing material Cost(Released on December 2009)- Applicable from 01.04.2010.

- Packing Material Cost: The cost of material of any nature used for the purpose of packing of a product and classified into Primary and Secondary Packing Material.

CAS 10 – Direct Expenses(Released on December 2009)- Applicable from 01.04.2010.

- Direct Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost.

CAS 11 – Administrative Overhead(Released on March 2010)- Applicable from 01.04.2010.

- Administrative Overheads are the cost of all activities relating to general management and administration of an entity.

CAS 12 – Repairs & Maintenance(Released on March 2010)- Applicable from 01.04.2010.

- Repairs and maintenance cost represents cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.

CAS 13 – Cost of Service Centre- Effective from 1st April 2011.

- Service Cost Centrecost represents cost of providing auxiliary services across the entity. The cost centre which provides services to Production, Operation or other Service Cost Centre but not directly engaged in manufacturing process or operation is a service cost centre.

CAS 14 – Pollution Control Cost- Effective from 1st April 2012

- Pollution Control means the control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water, and / or other resources.

CAS 15 – Selling & Distribution Cost - Effective from 1st April 2013

- Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.
- Distribution costs or Distribution overheads: Distribution Overheads are the costs incurred in handling a product or service from the time it is ready for delivery until it reaches the ultimate consumer. The cost of packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

CAS 16 – Depreciation & Amortization- Effective from 1st April 2014.

- In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator.Depreciation shall be considered from the time when a depreciable asset is first put into use.

- The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.

CAS 17 – Interest & Finance Charges- Effective from 1st April 2014.

- Interest and Finance charges: Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those funds.

CAS 18 – Research & Development Cost- Effective from 1st April 2014.

- Research cost is the cost of original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
- Development cost is the cost for application of research finding or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.

CAS 19 – Joint Cost- Effective from 1st April 2014.

- used to produce two or more products or services simultaneously up to the split off point.

CAS 20 – Royalty & technical knowhow fees- Effective from 1st April 2014.

- Royalty is any consideration for the use of asset (tangible and/or intangible) to the owner.
- Royalty and Technical Know-how Fee paid or incurred in lump-sum or which are in the nature of 'one – time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset.

CAS 21 – Quality Control - Effective from 1st April 2014.

- Quality control is the procedure or a set of procedures exclusively designed to ensure that the manufactured products or performed service adhere to a defined set of quality criterion or meets requirement of the client or the customer. Quality Control cost is the cost of resources consumed towards quality control procedures.

CAS 22 – Manufacturing Cost - Effective from 1st April 2015.

- Manufacturing cost of an excisable good is the aggregate of costs of all resources used in the process of its manufacturing. Manufacturing cost of each excisable good shall be the aggregate of direct and indirect cost relating to manufacturing activity.
- Manufacturing cost of excisable good shall include cost of inputs received free of cost or at concessional value from the buyer of excisable good and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for production of excisable good. It shall also include cost of rework, reconditioning, retro-fitment, Manufacturing Overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for production of excisable good.

CAS 23 – Removal of Overburden cost- Effective from 1st April 2017.

- Overburden is the overlying materials generally having no commercial value. This is the strip of earth that consists of lower percentage of minerals which is not economically viable to be extracted. This standard is applicable especially to the mining industries that are engaged in excavation of minerals.

CAS 24– Treatment of Revenue in cost accounts - Effective from 1st April 2017.

- The term Revenue will have the same meaning as assigned in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or in the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.
- Revenue from operations is the income arising in the course of the ordinary activities of an entity from the sale of goods or rendering of services.

Group: IV
Paper 20 :

Strategic Performance Management & Business Valuation (SPBV)

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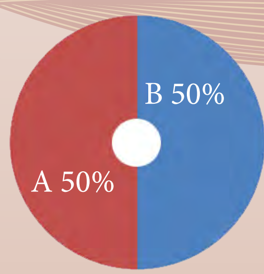
He can be reached at: ***gautammitra6@gmail.com***

Your
Preparation
Quick
Takes :

Syllabus Structure
A Strategic Performance Management **50%**
B Business Valuation **50%**



Learning Objectives:

- I strongly recommend getting your basics from study materials first and then moving over in solving numerical sums from professional examinations in the last 5 terms.
- Internationally famous books and video tutorials have no substitute.
- Learn alone but discuss with your fellow examinees at regular intervals.
- Best way of learning is teaching. Learn an issue by writing manually as far as possible.
- Next, try to teach it to another examinee. You will get reciprocal treatment from him/her.
- Let you grow together!

From June 2017, you are to answer 2 different sections of 50 marks each.

- ❖ Section A on Strategic Performance Management [50 marks] and
- ❖ Section B on Business Valuation [50 marks].

This is a remarkable change in the syllabus, which will favour you. In Performance management you need to answer questions on the areas like Balanced Score Cards, Statistical Quality Control, Six sigma etc and on Business valuation you must fact face questions on valuation of financial assets, like equity shares, bonds etc and various non financial assets like brand, human resources etc. Give emphasis on Mergers and Acquisition. I am sure, paper setter will find it difficult to ignore it altogether ion the context of business valuation. In my previous guidance in e bulletin, I have shared my experience in distinguishing between cost, price and value. Please remember it while you learn (just on read) different models on Business Valuation like DCF, Relative Valuation model, H model etc. Try to know how and why one model is different from other and just not try to know what these models are.

Dear students,

Only in June 1987 term I was a student of our beloved Institute. Even after 30 years I remember my failures and success, pains and gains at the end of each term. I find myself fortunate enough to go back to your study table and talk to you over a cup of coffee.

How to answer a question in a professional examination

I hope there are 6 key points for answering a question in professional examination. We must discuss them one by one.

Read the instruction carefully;

In most of the cases this point is neglected. We have a tendency to write without understanding what the question requires. For example if the question desires to know what are the econometric tools to be used for performance management we often find a tendency of writing those techniques which are non- econometric in nature.

Time Management : Before you start writing, always plan for time allocation to respective question, ranging to (i) easy, (ii) moderately tough , (iii) tough and (iv) very tough. I still remember the days I was examinee. I used to mark my question papers with series numbers ranging from A_1, A_2 A_3.... etc. Once marked in order of difficulty levels from easy to relatively higher levels of difficulty you are relieved from panic or indecisions, which one to start first and which one to write next. It saves you lot of time to be utilised for questions with increasing levels of difficulties. Question are not equal marks and not of equal level of difficulties. We must plan accordingly.

Presentation:

Not just planning, formatting is equally important. If you get stuck with a particular part of a question or a part of it, leave a space in your answer booklet and proceed towards answering next part of the question. Come back to the space later if time permits.

Be careful which answer the question deserves and not what all you know. Question setter is not at all interested to know what all you know but what is categorically asked. It is strongly suggested not to answer any question based on guess; particularly it is of MCQ type. On the other hand, in all professional examinations you get stepwise marks even if it not written with much precision but based not your strong arguments and logic which cannot be ignored. Be choosy in selecting question.

Easy marks: Although covered in point number 3 already, there is no substitute for scoring easy marks first from answering the questions on which you are most confident. It will give you further confidence for next questions.

Through Preparation

Hard labour has no substitute. This golden rule has not changed over time. If you are thoroughly prepared, you must get success. Be ready to impress your examiner with your honesty, intelligence, logical bent of mind and analytical power. Use of colourful pencils may not be helpful!

Recommended Books

Part A: Strategic Performance Management (50 marks)

Author	Title	Publisher
T Hunt	Commonsense Talent Management	Wiley
Linda Ashdown	Performance Management	Kogan page
Dick Grote	How to be Good at Performance Management	Harvard Business Press

Part B: Business Valuation (50 marks)

Author	Title	Publisher
Aswath Damodoron	Damodoron on Valuation	Wiley
Aswath Damodoron	Investment Valuation	Wiley
Tim Koller et al	Valuation	Mckinssey

Areas where students lack and how to overcome (Part A : Performance Management)

In order to identify the specific areas where students lack we should have a careful overview of **four key areas of performance management**

- Why performance management is important for decision making
- Econometric tools used for performance management
- Risks associated with strategies of an organisation
- Skill development and strategy development for competitive advantages

Let also have a **brief overview of the contents of performance management**

Section A of paper 20 deals with Performance Management having 50 marks. It has 4 parts. Study notes 1 deal with conceptual framework of performance management. Study notes 2 deals with different tools of performance evaluation and improvements. Economic Efficiency of the firm and its performance analysis are dealt with in study note 3. Study note 4 deals with Enterprise Risk Management.

Extract from Review of Last Year's Question papers

I have reviewed 5 questions and answers on Performance Management from June 15 to June 2016. These were full papers of 100 marks each. Students were supposed to answer 7 questions from three sections. Three questions (out of four) of 20 mark each from section A: Performance Management. It makes a total of 60 marks. From section B (IT and Econometric tool in Performance Management) they were supposed to answer 2 questions out of 3 carrying 10 marks each. It makes total marks of 20. From Section C (Enterprise Risk Management) they were supposed to answer 2 questions out of 3. That makes a total of 20 marks. This division of marks were applicable for a total of 100 marks.

From June 2017 term, students are supposed to answer for half paper carrying 50 marks on Performance management. Unlike earlier terms, this time contents in Performance management have been classified under 4 major sections. In first part analysis of performance has been attempted from 3 different specialisation areas, Finance, Marketing and Systems & Operations Management. However, before approaching those functional areas core concepts and components of performance management have been duly addressed. In

2 nd part various evaluation and improvement tools like six sigma, statistical quality control, total quality management, balanced scorecard etc. Have been highlighted.

In 3rd part although new syllabus does not use the title IT and Econometric tools of performance management like before but cover those issues in minuscule manner under new title of profit maximisation under different market structure and market factors affecting pricing decisions.

Part 4 (Enterprise Risk Management) gives a lot of importance on corporate failure models (like Altman's model) in association with different risk management tools.

Although no written instruction from the Institute is available to me, it is perceived that proposed marking pattern might be 20 marks from part 1, section 10 marks from part 2From part 3 and part 4 I guess, students might be required to answer to question carrying 10 marks each.

During last 5 terms compulsory case studies carrying 20 marks came from areas like (i) supply chain management, (ii) target costing, (iii) balanced scorecard and (iv) HR. Students are strongly advised to prepare themselves from CIMA Study kit. A series of such kit is available at members' library.

Basic ideas about econometric tools like exogenous and endogenous variables, various statistical terminologies have been explained in order to enable students to learn. As most of the students are from non statistical background, this portion has been kept minimum. In Information technology area, conception in basics viz., data mining, spreadsheet, genetic algorithm has been asked. Students' core area like capital budgeting, Economic Value Added (EVA) etc has been included as right techniques for performance measurement. Capacity to utilise different ratios for performance management like

3B. Brief Overview of our Study Material (Business Valuation)

Section B of paper 20 is in connection with Business Valuation. First part (Study Note 5) offers an introduction to the course. It deals with basis, principles, techniques and roles of business valuation.

Second part (study note 6) deals with 4 different models of business valuation viz.

- Discounted Cash flow Valuation;
- Relative Valuation,
- Free Cash Flow Valuation and
- Contingent Claim Valuation.

However, it deals with firm valuation using techniques other than those 4.Study Note 7 deals with Valuation of Assets and Liabilities. It deals with financial as well non financial items of business valuation viz. Inventories, copyrights and brands comes under non financial assets whereas bond, equity share and preference shares comes under financial assets. Different models like Economic value Added, Market Value added and valuations of liabilities are discussed here. Study Note 8 deals with Merger

& Acquisition. It has discussed different types of M&As. It has discussed relevant models of business valuations in relation to M&As. The section highlights swap ratio which is consequential to issue of equity shares by the acquiring firm to target firm. Synergistic benefits and distribution of such gains are discussed later. After dealing with selection of appropriate cost of capital for valuation, the section ends with impact of merger on value of equity shares of both the firms. Just a few punch lines before we end up.

- Know the distinctions between cost, price and value. Know valuation biases and where from they arise.
- Valuation or performance management Models are always based on basic concepts. Do not try to memorise models without understanding their roots in the basic concepts. All models make a target towards fair value.
- At the end, no model is without its limitation and valuations by using alternate models are imperative. In past Q & A of our institute you will find alternated answers.
- Basics of Mergers and Acquisitions are most important for both Sections. No question setter may avoid it fully. Read it thoroughly.
- Valuation of liabilities and Human assets to be learned with numerical examples.
- Know how to brows. All information are not in same search engine. Google may not give all answers.
- First read each line of your study materials and past 5 terms without any compromise.
- While doing sums try to solve without seeing the solutions. Check your solutions only after you prepare and check it yourself.

Take a break in your study at the end of each hour or even half an hour. Quality study and meditating on a specific area off the book is essential. Who says you are not studying while you go for a long walk on a lonely evening!

Who says you are not studying while you go for a long walk on a lonely evening!

I wish you all success.

SUBMISSIONS

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!
Few of the mails received from the student's are acknowledged here. We have noted their queries and their 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!

Respected Sir/ Madam,

Million Thanks for sending mail regarding e-Bulletin, November Issue. This is the first time I'm receiving mail from Institute.
I'm Final Student & It's really motivating in the final stage of preparation. I would like to receive these issues regularly. It's really helpful in studies.
I would like to request you to upload RTP/MTP & other latest learning resources well in advance to Exam Time so that we can prepare more effectively to get success in the Examination.
I've already sent tweets to our institute's official twitter handle related with this issue of RTP/MTP so that we can get updates through our Institute site only. At present we've to visit / (depend upon) site of Institute of Chartered Accountants' of India to get Taxation and other updates.
I hope my humble request will be considered favorably.

Sincerely Yours,
Sarang P. Bakare
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[sarang.pb@gmail.com]
(Proud Student & Future Member of ICMAI)

Dear ICMAI,

Wishing you in advance a very happy and prosperous new year 2017.....
First of all I thank you for such great efforts towards our students community its really a concise & powerful punch to rejuvenate our knowledge & very much helpful for last revision. We expect same efforts to be continue so that we get updated ourselves in last days of examination.
Pls also give useful inputs about the Cost rules & Companies act 2013 in there respective subjects.

Unfortunately due to my less preparation I didn't sit for Dec'16 exams but I will do my best & getting ready for Jun'17 examination from now onward only.

Well I didn't receive any notification for this student e-bulletin , kindly add my email address & I keen to receive the same as it is issued.

Thanks & Regards,

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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. Students may update their E-mail Id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.
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

PRACTICAL ADVICE

ABOUT YOUR STUDIES - FINAL COURSE

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

Message from the Directorate of Studies

For the smooth and flowless preparation, Directorate of Studies have provided meaningful tipa which will help you to gain sufficent knowledge about each subject.

'Tips' are given in this E-bulletin by the knowledge experts, for the smooth encouragement in your preparation. We are sure that all studients will definitely be benefitted by those tips and that will help them to brush up their knowledge and also to swim across.

Take the course seriously from the very begining but don't be panicky. Please try to follow the general guidelines, mentioned below; which may help you in your preparation.

Essentials for Preparation:

- *Conceptual understanding & overall understanding of the subject both 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 answers precisely and in a structured manner,*
- *In-depth knowledge about specific terms required.*
- *Write question numbers correctly and prominently.*
- *Proper time management is also important while answering.*

Be Prepared and Get Success;

Wishing you a very Happy & Prosperous Year ahead!

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.

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