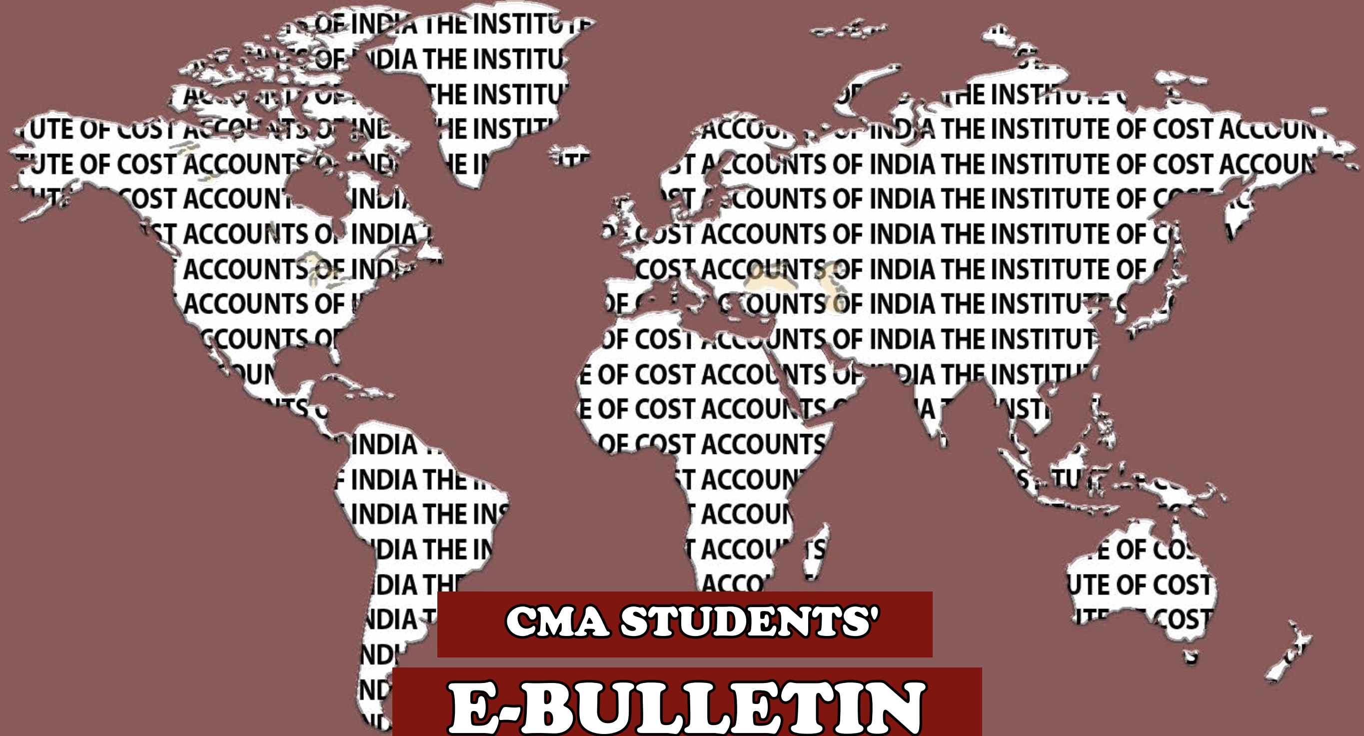

CMA STUDENTS'

E-BULLETIN

FINAL

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan 12, Sudder Street, Kolkata – 700 016

Tel: +91-33 2252 1031/1034/1035/1492/1602/1619/7373/7143

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

Phones : +91 11 24666100, 24622156/57/58

Behind every successful business decission, there is always a CMA

Message from the President

Dear Students,

Greetings!!!

"Education is not preparation for life; education is life itself"   -John Dewey.

From our Late visionary President one inspirational message you please carry in your mind about your future career from the day one of your joining is: ***"If we have to succeed in the globalized world, we have to enlarge the scope of Cost Audit to cover all aspects of manufacturing and service sector activities including healthcare and education".*** Love your course curriculum, dedicate yourself for your achievement from day one and be determined; see that success will surely follow.

You, being the future torch bearer of the Institute please try to be instrumental in ***'Make in India'*** initiative of our Prime Minister and see it successful. You are having enormous responsibility on your shoulder. From the very beginning, you please try to dream big and eventually you will see that it happened.

My sincere thank goes to all the eminent writers, who, despite their own busy schedules have contributed in these editions of e-bulletins.

I must appreciate the efforts of all the employees of the Directorate of Studies to come out timely with this issue.

I have full faith on your capacity and strength and I believe that you will deliver your best in the years to come and will make your Institute and your country happy.

I want to put an end with the words of Les Brown- ***"Shoot for the moon. Even if you miss, you'll land among the stars".***

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

Be a CMA, be a Proud Indian

Message from the Chairman

I am delighted to know that your responses about the E-bulletin are received by the Directorate of Studies with positive notes.

Thomas Henry Huxley said that ***"Zeal without knowledge is fire without light"***. The Directorate of Studies is trying to boost up your energy level towards this by the publication of these issues and your duty is to extract the best out of it. With your study notes, if you try to cater your knowledge from all other available resources like RTPs, MTPs and prepare sincerely from the very beginning, you must succeed in the examination and fulfil your dreams timely.

"The best way to predict the future is to create it" said by Abraham Lincoln. So, from the very beginning, you must try to practice reading in a regular basis.

There is a maxim like-'No risks, no gain' in support of this view Swami Vivekananda also said that ***"Take risks in your life. If you win, you can lead! If you lose, you can guide".***

My sincere requests to all of you that be very serious and sincere towards your study from very beginning see the result must follow.

Wishing you all- A Great Success in your endeavour,

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.

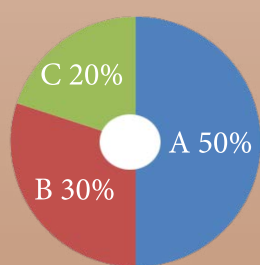
Group: III
Paper 13 :

CORPORATE LAWS AND COMPLIANCE (CLC)

Mr. Subrata Kr. Roy
Company Secretary,
M.S.T.C.Ltd.
He can be reached at:*subrataoffice@rediffmail.com*

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.**

Topic: SEBI Laws and Regulations

Tips:

SEBI Laws and Regulations are very wide. In order to understand such Regulations, students should have to understand the terminologies which are used in Capital Market. The terminologies are derived from SEBI Act & Rules.

Students should read these terminologies first and thereafter compare with previous questions. They should refer to the study material if the note is not adequate.

1.0 CAPITAL MARKET TERMINOLOGIES

1.1 Contract:

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

1.2 Securities:

'Securities' includes the following:

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

1.3 Government security:

'Government security' means a security created and issued, whether before or after the commencement of this Act, by the Central Govt. or a State Govt. for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debts Act, 1944.

1.4 Derivative:

'Derivative' includes-

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

1.5 Beneficial owner:

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

1.7 Depository:

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

Process:

The depository system involves:

(a) Conversion of securities from physical mode to electronic mode.

(b) Settlement of trades in electronic segment.

(c) Electronic transfer of ownership.

(d) Electronic custody of securities.

(e) All the securities are identical in all respects and are fungible.

(f) The system is not mandatory for the owner of the securities but it is mandatory for the companies.

1.8 Merchant Banker:

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

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

1.10 Stock Exchange – a company which provides a platform for buying and selling of securities through brokers and is called market transaction. Only CG authorized exchanges can operate.

1.11 Underwriter – any person/organization who agrees to subscribe securities in case they are not subscribed by investors in public issue.

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

1.13 Insider Trading – passing of information by any insider of a company. Insider means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to the unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information. Price sensitive information' means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of the securities of the company.

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

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

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

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

1.18 Abridged Prospectus –

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

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

2.1 Entry Norms (IPO or FPO)

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

a) Minimum 20 lakh securities (excluding reservations, firm allotment and promoters' contribution) are offered to the public;

b) The size of the offer to the public, i.e. the offer price multiplied by the number of securities offered to the public was minimum Rs.100 crores; and

c) The issue was made only through book building method with allocation of 60 per cent of the issue size to the qualified institutional buyers as specified by the Securities and Exchange Board of India;

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

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

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

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

(ii) The company has a track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for at least (3) out of immediately preceding five (5) years.

Provided further that extraordinary items shall not be considered for calculating distributable profits in terms of Section 205 of the Companies Act, 1956;

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

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

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

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

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

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

2.3 Pricing by Companies Issuing Securities

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

2.4 Price Band:

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

2.5 Promoters' Contribution and Lock-in Requirements.

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

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

Minimum Promoters' contribution

Lock-in period: 3 years.

Excess Promoters' contribution:

Lock in period: 1 year.

2.6 Book Building Process:

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

2.7 Pre- issue Obligations:

1.The lead merchant banker shall exercise due diligence.

1. Documents to be submitted along with the offer document

by the Lead Manager:

- Memorandum of Understanding.
- Inter se allocation of responsibilities
- Due diligence certificate.
- Undertaking.
- List of Promoters' group and other details.
- Appointment of intermediaries like merchant bankers, co-managers and other intermediaries.

2.8 Public Issue Steps:

- The lead merchant banker's minimum underwriting obligation: 5% of the total underwriting commitment or Rs.25 lakhs whichever is less.
- Offer document to be made Public.
- Pre-issue advertisement.
- IPO grading: By rating agency approved by SEBI.
- Despatch of issue material.
- No complaints certificate.
- Mandatory collection centers of applications in major cities.
- Authorized collection agents.
- Appointment of compliance officers: To be notified in the advertisement who is responsible for the compliance.
- Agreement with depositories: For data access of shareholders

2.9 Reservation for Employees:

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

The main object of the SEBI Act are as follows:

(a) Protect the interests of the investors in securities.

(b) Promoting orderly and healthy growth of the securities market.

(c)Regulation of the securities market and other incidental matters.

(d) Promoting the fair dealings by the issuer of securities and raising of funds at a relatively lower cost.

(e) Monitoring the activities of stock exchanges, mutual funds and merchant bankers etc.

3.0 Powers of SEBI

(1) Specific powers like regulating the business of stock exchanges, registering and regulating the functions of stock brokers, share transfer agents, bankers, registrars, trustees, underwriters, portfolio managers etc.

(2) Power to make inspection.

(3) Powers of civil court exercisable by SEBI.

(4)Power to issue direction.

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

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

4.0 Guidelines on initial public issue through the stock exchange

1) Agreement with the stock exchange.

2) Appointment of brokers.

3) Appointment of Registrar to the issue.

4) Listing.

5) Responsibility of Lead Managers.

6) Mode of operation.

7) Demat

5.0 Book Building:

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

Difference between offer of shares through book building and offer of shares through normal public issue :

Price at which securities will be allotted is not known in case of offer of shares through book building while in case of offer of shares through normal public issue, price is known in advance to investor. In case of Book Building, the demand can be known everyday as the book is built. But in case of the public issue the demand is known at the close of the

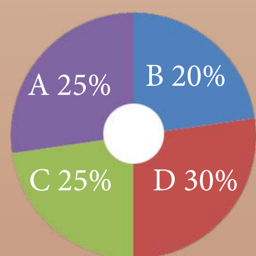
Group: III
Paper 14 :

STRATEGIC FINANCIAL MANAGEMENT (SFM)

Dr. Arindam Das
Associate Professor,
Department of Commerce,
The University of Burdwan
He can be reached at:*arindam_dasbu@yahoo.co.in*

Your Preparation Quick Takes :

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



Learning objectives:

After studying this section, you will be able to:

- **calculate security's expected return and risk**
- **cognize the concept of efficient frontier**
- **compute the portfolio return and risk**
- **calculate the portfolio beta**

In order to be conversant with the above mentioned objectives let us consider a few numerical illustrations on portfolio management.

Example 1

The expected return of Stock X has the following distribution:

Demand for the company's products	Probability (p_i)	Rate of return (r_i) (%)
Weak	0.2	(15)
Average	0.5	26
Strong	0.3	40

Calculate the stock's expected return, standard deviation and coefficient of variation.

Solution

Expected return ($\bar{r}$) = $\sum p_i r_i$ = [(0.2)(-15%) + (0.5)(26%) + (0.3)(40%)] = 22%.

Variance of return (σ^2) = $\Sigma(r_i - \bar{r})^2 p_i$ =(-15-22)^2(0.2) + (26-22)^2(0.5)+(40 - 22)^2(0.3)] = 379

Standard deviation of return (σ) = $\sqrt{379}$ = 19.47%.

Coefficient of variation (CV) = $\frac{19.47\%}{22\%}$ = 0.885.

Example 2

An individual has invested Rs. 70,000 in a stock that has a beta of 0.7 and has invested Rs. 80,000 in a stock with a beta of 1.5. If these are the only two investments in her portfolio, what is her portfolio's beta?

Solution

Total Investment 70,000 + 80,000 = 1,50, 000

Portfolio's beta = [(Rs.70,000/Rs.1,50,000)(0.7)] + [(Rs.80,000/Rs.1,50,000)(1.5)]

= (0.47 x 0.70) + (0.53 x 1.5) = 1.12

Example 3

Security A has an expected return of 20 percent and a standard deviation of 30 percent. Security B has an expected return of 26 percent and a standard deviation of 60 percent. If the correlation between A and B is 0.5, what is the expected return and standard deviation of a portfolio comprising of 40 percent of Security A and 60 percent of Security B?

Solution

The expected portfolio return is given by

$$\hat{r}_P = w_A \hat{r}_A + (1 - w_A)\hat{r}_B$$

= 0.4(0.2) + 0.6(0.26)

= 0.235 = 23.6%

The portfolio standard deviation is given by

$$\sigma_p = \sqrt{W_A^2 \sigma_A^2 + (1 - W_A)^2 \sigma_B^2 + 2W_A(1 - W_A)\rho_{B}\ \sigma_A \sigma_B}$$

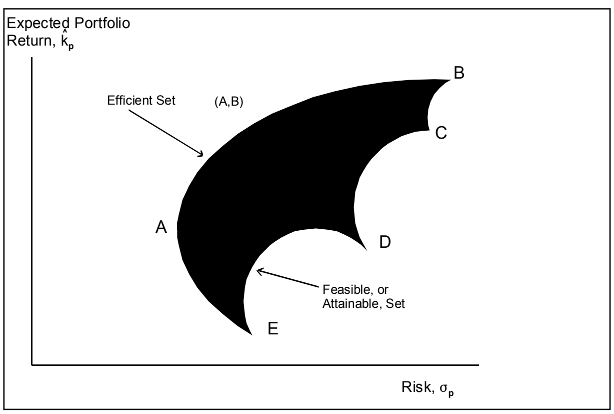
$$= \sqrt{0.4^2(0.3^2) + 0.6^2(0.6^2) + 2(0.4)}\,(0.6)\,(0.5)\,(.03)\,(\,0.6)$$

= 04326

Example 4

Construct a reasonable, but hypothetical, graph which shows risk, as measured by portfolio standard deviation, on the x axis and expected rate of return on the y axis. Then add an illustrative feasible (or attainable) set of portfolios, and show what portion of the feasible set is efficient. What makes a particular portfolio efficient? Don't worry about specific values when constructing the graph—merely illustrate how things look with "reasonable" data. (Brigham *et al*, *Fundamentals of Financial Management*, 10th Ed.)

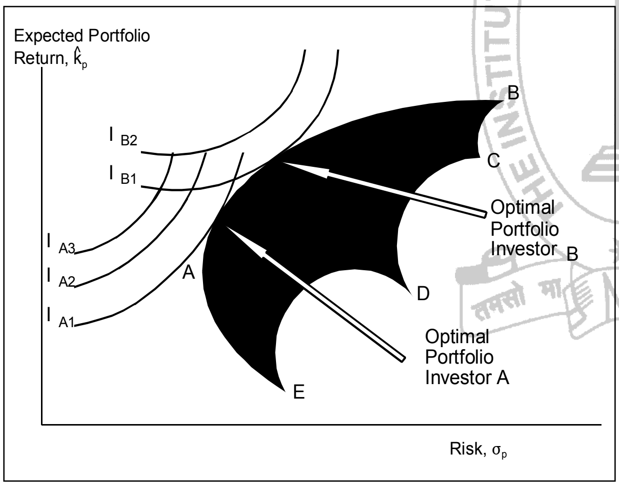
Solution



The figure above shows the *feasible* set of portfolios. The shaded area is called the *feasible, or attainable, set*. The north – west boundary AB defines the *efficient set* of portfolios, which is also called the *efficient frontier*. Portfolios to the left of the efficient set are not possible because they lie outside the attainable set. Portfolios to the right of the boundary line (interior portfolios) are inefficient because some other portfolio would provide either a higher return with the same degree of risk or a lower level of risk for the same rate of return. (Brigham *et al*, *Fundamentals of Financial Management*, Solution Manual,10th Ed.)

Example 5

Now add a set of indifference curves to the graph created in example 4. What do these curves represent? What is the optimal portfolio for this investor? Finally, add a second set of indifference curves which leads to the selection of a different optimal portfolio. Why do the two investors choose different portfolios? (Brigham *et al*, *Fundamentals of Financial Management*, 10th Ed.)



Solution

"The figure above shows the *indifference curves* for two hypothetical investors, A and B. To determine the optimal portfolio for a particular investor, we must know the investor's attitude towards risk as reflected in his or her risk/return tradeoff function, or indifference curve. Curves I_{a1}, I_{a2}, and I_{a3} represent the indifference curves for individual A, with the higher curve (I_{a3}) denoting a greater level of satisfaction (or utility). Thus, I_{a3} is better than I_{a2} for any level of risk.

The optimal portfolio is found at the tangency point between the efficient set of portfolios and one of the investor's indifference curves. This tangency point marks the highest level of satisfaction the investor can attain. The arrows point toward the optimal portfolios for both investors A and B.

The investors choose different optimal portfolios because their risk aversion is different. Investor A chooses the portfolio with the lower expected return, but the riskiness of that portfolio is also lower than investor's B optimal portfolio, because investor A is more risk averse." (Brigham *et al*, *Fundamentals of Financial Management*, Solution Manual,10th Ed.)

Example 6

The standard deviations of the returns of two securities are 5% and 10%, with expected returns of 8% and 12% respectively. A portfolio is invested with 40% in the first security and 60% in the second security. Calculate the expected return and standard deviation of the portfolio assuming that the correlation coefficients between the returns of the securities are (1) 1.0 (2) 0 and (3) –1.0.

Solution

(1) When correlation coefficient between the returns of the securities is 1.0

The expected portfolio return is given by

$$\hat{r}_P = w_1\,\hat{r}_1 + w_2\,\hat{r}_2$$

= 0.4(0.8%)+0.6(0.12%)

= 10.4%

The portfolio standard deviation is given by

$$\sigma_p = \sqrt{W_1^2\sigma_1^2 + W_2^{\ 2}\,\sigma_2^2 + 2W\ W_2\ \rho_{12}\,\sigma_1\,\sigma_2}$$

$= \sqrt{0.4^2(5\%^2)+0.6^2(10\%^2)+2(0\text{-}4)(0.6)(1)(5\%)(10\%)}$

= 8%

When the correlation is 1, the expected return is 10.4% and the standard deviation of returns is 8.0%.

(2) When correlation coefficient between the returns of the securities is 0

The expected portfolio return is given by

$$\hat{r}_P = w_1\,\hat{r}_1 + w_2\,\hat{r}_2$$

= 0.4(0.8%)+0.6(o.12%)

= 10.4%

The portfolio standard deviation is given by

$$\sigma_p = \sqrt{W_1^2\sigma_1^2 + W_2^{\ 2}\,\sigma_2^2 + 2W\ W_2\ \rho_{12}\,\sigma_1\,\sigma_2}$$

$= \sqrt{0.4^2(5\%^2)+0.6^2(10\%^2)+2(0\text{-}4)(0.6)(0)(5\%)(10\%)}$

= 6.3%

When the correlation is zero, the expected return is 10.4% and the standard deviation of returns is 6.3%.

(3) When correlation coefficient between the returns of the securities is - 1.0
The expected portfolio return is given by

$$\hat{r}_P = w_1 \hat{r}_1 + w_2 \hat{r}_2$$

= 0.4(0.8%)+0.6(o.12%)

= 10.4%

The portfolio standard deviation is given by

$$\sigma_p = \sqrt{W_1^2 \sigma_1^2 + W_2^{\ 2} \sigma_2^2 + 2W\ W_2\ \rho_{12}\, \sigma_1\, \sigma_2}$$

$= \sqrt{0.4^2(5\%^2)+0.6^2(10\%^2)+2(0\text{-}4)(0.6)(-1)(5\%)(10\%)}$

= 4.0%

When the correlation is -1, the expected return is 10.4% and the standard deviation of returns is 4.0%.

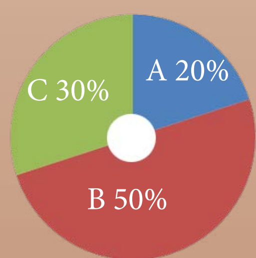
Group: III
Paper 15 :

STRATEGIC COST MANAGEMENT - DECISION MAKING (SCMD)

CMA Dr. Sreehari Chava
Cost & Management Consultant
Nagpur, Maharastra
He can be reached at: ***sreeharichava@yahoo.co.on***

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?

Target Cost Management

01.00 Japan's Competitive Thinking triggers Target Costing

The primary objective of Japanese Management is stated to be linking accounting practices with corporate goals and missions. As a consequence, the Japanese Management Accountants are tuned to focus on influential roles rather than restraining themselves as information providers. The Japanese believe that the key to achieving a competitive edge is simplicity. They have established that there can be too much of good things, too much of a variety, too much of a flexibility and even too much of customer satisfaction.

Deriving from the thought of continuously improving costing, in their stride to maintain the competitive edge, Japanese organisations have moved on to the radical approach being referred to as 'Target costing'. Target costing is market-driven system of cost reduction, focused on managing costs at the developmental and design stages of a product.

In the early of 1990s, three major events occurred in Japan that contributed to significant changes in target costing. The first and the most significant was the bursting of the economic bubble in 1990 and 1991, which caused many companies to struggle to meet customers' expectations of lower prices.

The second event was the rise of the Japanese yen against the U.S. dollar, which started in 1993. By 1995, the Japanese yen had appreciated as much as 50 per cent against the dollar. It moved from a stabilized exchange rate of 130–140 yen per dollar in 1992 onto a record 84 yen per dollar in 1995. As a consequence, both the exports and the profit margins of Japanese companies plummeted. The survival instinct of the Japanese companies forced them to intensify their use of target costing.

The long recession in Japan caused by a crisis in the financial sector was the third major event that forced many Japanese companies to squeeze out costs to meet their profitability requirements. Target costing paved the way for survival of the fittest as also to reinvent the upbeat. Eventually, Target Cost Management has turned out to be the Japanese Competitive Tool.

02.00 The Target Philosophy

In a competitive economy, product markets influence the determination of the price of the product and the financial markets influence the determination of the cost of capital. Cost of the capital infused by the enterprise sets the benchmark for the quantum of the profit to be achieved. Thus, price of the product as also the quantum of the profit are market driven. The end result is that the product cost boundaries are set by the difference between the price and the profit.

Target Costing is considered as a philosophy in which product development is based on what the customer wants and is willing to pay for and not what it costs to produce. Hence it starts with the market determined price; then deducts the desired profit margin; and works back the target cost. Peter Drucker calls this "price-led costing." And that is how the formulation: "Target Cost = Target Price – Target Profit" in place of the traditional approach of "Cost + Profit = Selling Price".

An illustrative example assumes the following situations. ABC Limited finds a market niche to an innovative kitchen grinder at a market driven price of Rs.3000/- per piece. The estimated sales volume at that price would work out to 40000 pieces per annum aggregating to Rs.12 crores. The projected investment towards designing, developing, producing, marketing and servicing these grinders is estimated to be Rs.8 crores; and the desired return on investment is 15% per annum.

Given the afore said data, the target cost to design, develop, produce, market and service the kitchen grinder of ABC Limited may be formulated as shown in the table that follows.
Target Cost of Kitchen Grinder

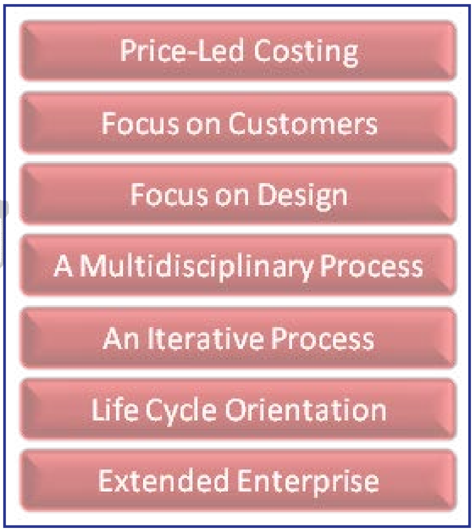
Serial	Item	Workings	Amount in Rs.
1	Projected Sales	40,000 pieces @ Rs.3,000/- per piece	12,00,00,000
2	Desired Profit	15% ROI on Rs.8,00,00,00 of Investment	1,20,00,000
3	Target Cost	Projected Sales – Desired Profit	10,80,00,000
4	Target Cost per grinder	Target cost / 40,000 pieces	2,700

The target cost of Rs.1080 lakhs per annum which computes to Rs.2,700/- per grinder would further be broken down function-wise for the designing, developing, producing, marketing, servicing, and so on. Each of the functional areas would be made responsible to achieve the actual costs in line with the targets.

Born out of the market-driven philosophy, target costing is based on the price-down & cost-down strategy, which enables companies to win considerable share of their product markets. In companies where target costing is used, there seems to be a different culture and attitude. They place more emphasis on their relative position in the market and product leadership.

03.00 Features of Target Costing

Conceptually, target Costing needs to be perceived as an unique management tool that helps reduction of overall cost of a product over its life cycle. The process embraces all the stages of value addition by the producer as also value consumption by the customer. It does include the stages of research, design, development, manufacturing, administration, marketing, distribution and post sales support by the producer; utilisation, maintenance and disposal by the consumer. A significant realisation is that product designing stage throws up a lot many opportunities concerning cost reduction. It is, therefore, desirable to set the target cost first and then design the product to fit into the target formulations converging price and profit.



The distinct features of target costing may be summarized as:

1. Price-Led Costing: Target Cost is built on the fundamentals that Price is a function of product markets and Profit is a function of investment markets. Target cost is, thus, a derivative of the detailed analysis of the product market and the desired profit stipulations; and hence is aptly termed as a Price-Led Costing.

2. Focus on Customers: Product Price is deemed as the value that the customer is willing to pay; and product is developed to meet customer expectations; whereby unique focus is placed on customer satisfaction. Customer requirements for quality, cost and time are incorporated into the product decisions and guide the analysis of product costs. The process may also involve discussions with customers of different design options, making trade-offs between cost and value.

3. Focus on Design: Target costing emphasises the fact that cost management shall be initiated before the costs are incurred. The principles also highlight the fact that a majority of the production costs are committed at the design stage; and hence lay special focus on design development. Target costing starts at the earliest stage in new product development, and is embedded in the development process, such that detailed financial analysis takes place from the outset and engineering changes are made before production begins. This often means initial designs are simplified before manufacture, resulting in lower costs and time-to-market once the design is finalised.

A Multidisciplinary Process: A characteristic mentioned in all literature on target costing is the multidisciplinary nature of the process and the importance of the involvement of all functions in the analysis and decision-making. Responsibility for achieving targets must also be shared across functions. Target costing recognises the principle that cost management is a team-function; and sets the target costs by encouraging cross-functional involvement of every link that forms the value chain representing research, design, development, manufacturing, administration, marketing, distribution and post sales support activities. Various research studies highlight the multi-disciplinary involvement in the cost management process and the vital roles played by different functions.

4. An Iterative Process: Target costing is not an exact science and depends on credible data and sometimes difficult judgements. It is also an iterative process where targets evolve as teams seek to balance functionality, price, volumes, capital investment and costs. However, it is important that the overall top-level target cost is regarded as an unalterable commitment and if this cannot be met, the product cannot be launched.

5. Life Cycle Orientation: In order to ensure that total costs are minimised for both the producer and the customer, successful target costing examines the full life-cycle cost of the product. It considers all the costs of owning a product over its entire life, both from producer's as also customer's point of view. From the producer's point of view, it focuses on minimizing the costs of value chain. From a customer's point of view, it focuses on lowering the costs of utilisation, maintenance and disposal of the product.

6. Extended Enterprise: All the link-holders of the supply chain such as suppliers, dealers, distributors, and service providers are involved in the process of target costing enabling resemblance to an extended enterprise. The underlined theme is creation of value for the customers and minimization costs for the producers.

04.00 Cost Management Techniques and Target Costing

Many organisations have found that the real strength of target costing lies in its overall framework for cost improvement and efficiency within which a range of different techniques are used. The choice of technique or combination of techniques may vary from one company to another. Important techniques that fit into the framework of target costing include:

- ✤ Value Analysis
- ✤ Value Engineering
- ✤ Just-In-Time (JIT)
- ✤ Total Quality Management (TQM)
- ✤ Materials Requirements Planning (MRP)
- ✤ Kaizen
- ✤ Lean Manufacturing
- ✤ Activity Based Costing And Management (ABCM)
- ✤ Cause-Effect Analysis (Fishbone Diagrams)

Implementation of these techniques, in an overall framework, is a team effort. Given that perspective, Target Cost Management paves the way for the cost accounting professionals to look beyond, move onto shop floors and work hand in hand with the cross functional teams.

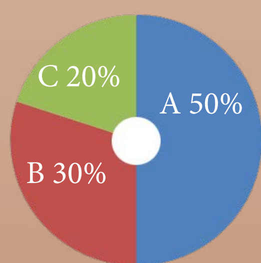
Group: III
Paper 16 :

DIRECT TAX LAWS & INTERNATIONAL TAXATION (DTI)

Dr. Sujit Kumar Roy
Associate Professor of Commerce
Goenka College of Commerce and Business Administration
Kolkata
He can be reached at:*roysujitk@gmail.com*

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.

Return of Income, Assessment Procedure and Annual Information Return: Points to Ponder

"I keep six honest serving-men (They taught me all I knew);Their names are What and Why and When And How and Where and Who…" Rudyard Kipling

Time and again it has been said that there is no secret to success. Success is met only after hard work and, sometimes, learning from your mistakes. Hard work, however, does not mean aimless toiling. It must be purposive and after reading the topic at hand, you should self-test and answer to yourself all these "Wh-questions" mentioned by Rudyard Kipling in his famous inspirational poem "I Keep Six Honest Serving Men", as far as they are relevant to your topic. Remember that your greatest enemies are complacency and self-deceptions.

Now let us get started with the fundamental questions on the topic under discussion. All discussions here are relevant for the Assessment Year 2017-2018 only.

Return of Income

An assessment procedure under the Income-tax Act begins with voluntary submission of return. Normally, every individual whose total income before allowing deductions under Chapter VI-A of the IT Act exceeds the maximum amount which is not taxable to tax is required to furnish return of income. However, there are certain circumstances when filing of return is mandatory irrespective of income. In addition to the above, at present **nine** categories of assessees are under **obligation** to furnish return of income in the **ITR Forms** specified and within the **due dates** prescribed.

Students should be able to clearly and in unequivocal terms answer the following questions:

(i) When is it mandatory to furnish return of income?

(ii) What are the due dates or prescribed dates for furnishing of such returns?(at present there are two dates, e.g. 31st July and 30th September of the assessment year, by which returns are to be submitted. As there is no uniform date for all types of assessees, you should clearly know when these dates are applicable.).

(iii) What are the various forms for a valid return? At present, there are eight different forms for return of income. Students should clearly know who can use a particular typeform(e.g. ITR1 to ITR 7).

(iv) Since delayed submission of return attracts penal interest u/s 234A, students should know well about: what is the rate of interest? What is the period for which interest is payable and what is the amount on which interest is to be calculated?

(v) Since interest apart, there is also a penalty for failure to submit return of income, students should clearly know the amount of such penalty.

In addition to the aforesaid, students should also be able to answer the following questions:

(vi) When is return of loss is mandatory?

(vii) What is a belated return? Can such a return be revised?

(viii) Can a revised return be further revised?

(ix) When is a return considered defective?

Furnishing of return requires an assessee to correctly mention PAN. Students should know well about the requirements of Rule 114B about the cases when quoting of PAN is mandatory.

Assessment procedure

Income-tax Act has made elaborate provisions for various types of assessment as under :

VARIOUS TYPES OF ASSESSMENT

- Summary Assessment u/s 143(1)
- Scrutiny Assessment u/s 143(3)
- Best judgment Assessment u/s 144
- Income Escaping Assessment u/s 147
- Assessment in Case of Search and Requisition u/s 153A

In each of the case, students should have a firm grip on :

(a) Scope of assessment under each section mentioned above;

(b) Procedure of assessment in each case; and

(c) Time limit for completion of assessment.

Annual Information Return

Annual Information Return (AIR) is in place to afford the income-tax authorities keep track of high value financial transactions undertaken by the tax payers/ tax evaders. Accordingly, under section 285BA, certain categories of persons/ organizations / institutions are required to furnish statement of financial transaction or Reportable account. The term "financial transaction" has been defined u/s 285BA(3), but in general the transaction should not be less than Rs. 50,000 in aggregate during the finial year.The periodicity and due date of furnishing statement of financial transaction or reportable account has been prescribed under sub-sections (4) and (5) of this section. Non-compliance shall result into penalty u/s 271FA to the extent of Rs. 100 for each day of default. Generally, a notice is served upon the persons responsible for furnishing AIR and 30 days are allowed to comply with the directives of the notice. If not complied with, a penalty of Rs. 500 per day shall be levied till the default continues.

Any defect in the statement should be corrected within 30 days of notice from the income-tax authorities or such extended time as allowed. Otherwise, it will be treated as a failure to furnish AIR and the aforesaid penal provision (Rs. 500 per day) shall apply.

Under section 271FAA, the penalty for inaccurate statement is Rs. 5000. Similar penalty shall be u/s 271FAB on eligible investment funds for failure to furnish AIR.

Test your knowledge

If you have understood the aforesaid provisions well, you should be able to answer the following questions (correct answer is indicated in bold type):

(1) The return of income is to be furnished in ________

(a) ITNS 281 (b) Form 26AS(c) Form 26Q **(d) ITR 1 – to 7.**

(2) ________ is the acknowledgement of filing the return of income.

(a) ITR - 4 **(b) ITR – V(c)** Form 26AS (d) Form 26QB.

(3) The return of income can be filed with the Income-tax Department in electronic

mode only: (a) True (**b) False**

(4) Taxpayers with total income of more than Rs. ________ shall furnish the return of income electronically with or without digital signature or by using electronic verification

code.(a) 25,00,000 (b) 15,00,000 (c) 10,00,000 (**d) 5,00,000.**

(5) The checking of the return of income by the taxpayer before filing the return of income is called assessment. (a) True **(b) False**

Assessment under section 143(1),is known as scrutiny assessment:

(a) True **(b) False**

(7) Assessment under section 144 is known as best judgment assessment **(a) True** (b) False

(4) Assessment under section 143(1) can be made within a period of ______year from the end of the financial year in which the return of income is filed. (a) four (b) three (c) two (d) one

(8) Notice under section 143(2) (i.e. notice of scrutiny assessment) should be served within a period of ________ from the end of the financial year in which the return is filed. **(a) six months** (b)one years (c) two years (d) eighteen months

(9) Assessment under section 143(3) shall be made within a period of _____years from the end of the relevant assessment year. (a) four (b) three **(c) two** (d) one

(10) Assessment under section 144 shall be made within a period of ______ years from the end of the relevant assessment year. (a) four (b) three **(c) two** (d) one.

(11) Assessment under section 147 shall be made within a period of two year from the end of the financial year in which notice under section 148 is served on the taxpayer. (a) True **(b) False.**

(12) As per Section ____________of the Income Tax Act, certain specified entities are required to furnish the details of specified financial transactions or any reportable account registered/recorded/maintained by them during the financial year to the Income-tax Authority or such other prescribed authority. (a) 285B **(b) 285BA** (c) 288A (d) 288B

(13) Non-furnishing of statement of financial transaction or reportable account will attract penalty under section 271FA. **(a) True** (b) False

(14) Maximum penalty u/s 271FAA is Rs. ____________

(a)Rs. 5,000 ; (b) Rs.500; (c) Rs. 1,000; Rs. 10,000

Suggested readings

(A) Direct Tax Laws and International Taxation : Group III, paper 16: Institute of Cost Accountants of India

(B) Income-tax Act, 1961: Taxman.

(C) Taxman's Direct Taxes : Law and Practice : Taxman

(D) Principles and Practice of Direct and Indirect Taxes : S.K. Roy , ABS Publishing House, Calcutta.

Obtain Domain Knowledge

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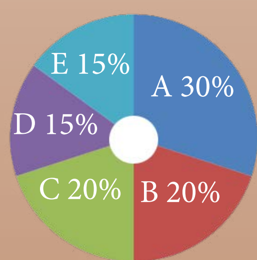
Group: IV
Paper 17:

CORPORATE FINANCIAL REPORTING (CFR)

Dr. Satyajit Dhar
Prof., Department of Business Administration
University of Kalyani W.B.
He can be reached at: ***satyajitdhar@yahoo.co.in***

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.

Introduction

AS explained in last bulletin(January, 2017) this paper is having a broad based content to cover many aspects of corporate financial reporting. The syllabus is well designed and it covers core aspect of financial reporting i.e. measurement of income and cash flow alongwith 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.

In this guide a brief outline is provided about sustainability reporting including GRI reporting and Triple Bottom Line Reporting.

Sustainability Reporting

The notion of sustainability and particularly sustainable development is gaining ground in the recent years as an important issue in contemporary international debates. Sustainability issues appear to have become more difficult to escape from, being more relevant to organizations at macro and micro levels. Internationally, there is growing concern about the social and environmental impact of organizational activities (particularly, for profit organizations). Such concerns have resulted in increase in reporting on environmental and other related (e.g., social, economic, etc.) issues by major companies. The term issued for this type of reporting vary and now any kind of such reports which used to be designated as environmental reports and subsequently as Corporate Social Responsibility (CSR) reports have now repackaged as sustainability reports. ***Sustainability reporting*** can be defined as a catch-all term that describes the various means by which companies disclose information on their environmental activities including business sustainability while ***corporate environmental reports (CERs)*** are only one form of environmental reporting defined as publicly available, stand-alone reports issued voluntarily by companies or information given in annual reports in their environmental activities.

Global Reporting Initiative (GRI) defines Sustainability Report as the practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization, including both positive and negative contributions Though *triple bottom line reporting* is another method for presenting and/or assessing corporate sustainability, yet it evaluates company performance according to a summary of costs and benefits to the corporation's finances, the communities where it operates and impacts on natural resources.

All over the world, several organizations such as: World Commission on Environment and Development (WCED), Commission of the European Communities, International Organisation for Securities Commission (IOSCO), Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have actively promoted **sustainability reporting or environmental reporting or corporate social responsibility reporting** firms to improve transparency and relevance of financial information. This concern is extended to all stakeholders knowing that greater disclosures of value-relevant accounting information are more likely to have higher international capital mobility. Corporate environmental reporting generally includes disclosure in the annual report, stand-alone environmental reports, stand-alone corporate social responsibility reports, press releases or disclosure through other medium like website, separate communiqué to stakeholders, advertisement, glossy booklets, newsletters, internal magazines and brochures etc. However, the annual report has been well documented as the predominant source of corporate communications to investors and currently is widely used by companies for social and environmental disclosures.

Through such report, a company discloses about its performance in the areas like, environment and other issues of sustainability, energy conservation, pollution control measures, conservation campaign, etc. There is no uniformity regarding such reporting. Such reporting is voluntary in most of the countries. At the outset, it may be mentioned that the terms like environmental performance information, environmental audit, environmental accounting, corporate environmental reporting (CER), environmental disclosure, sustainability reporting have been used by the researchers interchangeably to mean the same thing. However, environmental disclosure is not a developed area of financial reporting practices in the context of developing countries. Corporate environmental disclosure is a part of social reporting and the environmental disclosures are mainly non-financial in nature.

From examination perspective a student should make herself aware of following issues:

1. Concept of Triple Bottom Line Reporting
2. Global Reporting Initiative (GRI)

GRI Guidelines - Basic Features

A GRI report is a sustainability report that uses the Global Reporting Initiative's sustainability reporting guidelines. The GRI guidelines were designed to be used by organisations of any size and sector, in any region.

The guidelines assist companies to report on 'What matters and where it matters'.

These principles are designed with the long term in mind and are expected to create an enduring foundation upon which performance measurement will continue to evolve on new knowledge and learning.

GRI Framework

- What principles form the framework of the report? The core principles are transparency, inclusiveness and auditability.
- What information to report? It involves completeness, relevance and sustainability context.
- What will be the quality or reliability of reported information? The required criteria are accuracy, neutrality and comparability.
- What will be the accessibility (how, when) of reported information? It includes two important quality aspects: clarity and timeliness.
- Is the environmental report auditable? The principle of auditability relates to several other principles such as comparability, accuracy, neutrality and completeness. Auditability demonstrates that the process underlying report preparation and information in the report itself meets standards for quality, reliability and other similar expectations.

G4 Guidelines

Now, **G4 Guidelines** are valid and it will be phased out and GRI standards will be applicable from 1st July,2018.

G4 Guidelines ask each organization to report on material aspects: both inside and outside its operational boundaries. G4 encourages reporters to provide a comprehensive picture of their economic, environmental and social impacts - both direct and indirect.

G4 Guidelines provide inclusion of six essential aspects in a report:

- Choose the 'in accordance' option that is right for an organization and meet the requirements.
- Explain the criteria for defining the organization's material aspects, based on impacts and the expectations of stakeholders.
- Indicate clearly where impacts occur (Boundaries).
- Describe the organization's approach to managing each of its material aspects (DMA).
- Report Indicators for each material aspect according to the chosen 'in accordance' option.
- A GRI Content Index to be provided to help stakeholders to find relevant content.

Triple Bottom Line Reporting

Triple Bottom Line (TBL) Reporting, as a mechanism to address the three dimensions of corporate performance – 'financial', 'social' and 'environmental' is gaining popularity. The TBL framework is designed to provide a system of measurement and reporting of business performance on overall basis taking into account economic, social and environmental outcomes and impacts.

TBL Reporting is an accounting framework that goes beyond the traditional measures of profits, return on investment, and shareholder value to include environmental and social dimensions. Thus, TBL is a societal and ecological agreement between the community and businesses. Though *corporate social/environmental reporting* is another method for measuring, disclosing, and being accountable for organizational performance, yet TBL reporting differs from the traditional reporting frameworks as it also includes ecological or environmental and social measures that can be difficult to assign appropriate means of measurement. TBL reporting is one of the most important tools available to support corporate sustainable development goals. There are some critical issues regarding TBL framework. Its major weakness lies in measurement of outcomes across three dimensions. Performance measurement metrics are still evolving in many areas across these dimensions.

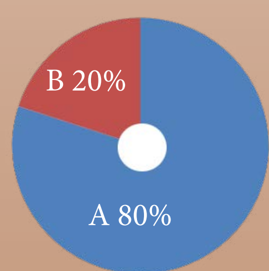
Nothing succeeds like success. Try on yours

Group: IV
Paper 18:

INDIRECT TAX LAWS & PRACTICE (ITP)

Mr. Abhik Kr. Mukherjee
Assistant Professor,
Department of Business Administration
The University of Burdwan, West Bengal
He can be reached at: ***akmukherjee@mba.buruniv.ac.in***

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

Note to Students:

Dear Students,

This particular subject 'Indirect Tax Laws & Practice' is not a new one for you as you have already been introduced to this subject at the Intermediate level (precisely in Paper 11: Indirect Taxation). An overview of the contents of the syllabus might give an impression that the topics have already been covered at the preceding level. Though it is true to some extent, but it is quite obvious that the scope of coverage of the topics is much more in depth and detailed at this Final level. Moreover, students preparing for their Final level examination are expected to learn some advanced level topics related to indirect taxation viz. tax planning and management under indirect taxes, foreign trade policy related issues, powers of various assessing authorities, the recent judicial pronouncements etc. in addition to the statutory provisions of the Central Excise, Service Tax, Customs laws and Sales Tax laws.

Background of Indirect Tax Environment in India

The Indian economy has undergone major transformation since it took the decision to liberalise the economy in the early years of the 1990s. One of the major implications of such liberalisation, privatisation and globalisation has been on the indirect tax map of the country. Prior to liberalisation, the indirect taxes, in India, were levied only on the 'goods' (i.e. tangible items) and no tax was levied on the 'intangible items' i.e. 'services'. The most significant indirect taxes that were levied at that point of time were central excise duty (on manufacture or production of goods in India), the central sales tax (on inter-state sale or purchase of goods), the customs duties (on import to or export of goods from India), state sales taxes (on intra-state sale of goods), entry tax etc. to name a few. Amongst all these levies, it was only the central excise duty that was brought under VAT structure ('MODVAT' later titled as 'CENVAT'). However, a major reform in the Indian indirect tax scenario happened in the year 1994-95 when the then Union Finance Minister, Dr. Manmohan Singh introduced the concept of tax on 'services'. Thereafter, there have been certain significant changes in the Indian indirect tax scenario, the most noteworthy of them being:

- Widening of the service tax base which was achieved formerly by incorporating more and more services in the regular amendments to the Finance Act, and thereafter by introducing the concept of 'comprehensive levy' and 'negative list'.
- Bringing the state-level sales tax structure under the VAT-net.
- Allowing flow of credit of 'input' taxes paid by introducing input tax credit scheme for CENVAT and merging the same with service tax.

Value Added Tax (VAT) in India: Certain common misconceptions related to this concept

In this backdrop, it would be very prudent to have a clear understanding on the concept of Value Added Tax (VAT). However, for proper understanding of the concept, I would like to proceed in the different manner. I would like to first identify the conceptual myths in relation to this very important indirect tax concept. A few of them are discussed hereunder:

- **'VAT is an indirect tax':** This is a gross misconception. VAT is a system/ approach of ascertaining the indirect tax liability of an assessee. VAT is not a type of tax that can be levied on the happening of any taxable event; rather it is a concept that is applied on the various indirect taxes.
- **'VAT is a type of sales tax':** In India, the state-level sales tax is referred to as VAT. This leads to a big misconception for the masses. Actually, VAT is a concept which can be and has been applied on all forms of indirect taxes viz. excise duty, service tax, sales tax etc.
- **'VAT was introduced in India in 2005':** From a layman's point of view it can be accepted. But as future professions, you must be careful on this point. VAT has been made applicable in India for almost past three decades. In India, this reform was attempted for the first time in 1986 when the principles of VAT were introduced in the excise duties through the Modified Value Added Tax (MODVAT) procedures. Subsequently, the MODVAT scheme was restructured into CENVAT (Central Value Added Tax) scheme, and both central excise and service tax were brought under the VAT structure. It was in 2005 that the local-level sales tax levies were brought under the VAT structure. So, the point to be noted here is that VAT has been made applicable in India for quite some time now, but still the entire sales tax is not under the VAT structure. This is because Central Sales Tax (CST) is still not under the VAT structure.

A Peep into the Future of Indirect Taxes in India

We are standing at a juncture where we will have to bid good bye to many of the existing indirect taxes and accept a new member in the Indian indirect tax family. This newest member – Goods & Service Tax (GST) – has already been conceived and expected to be born during the 2017-18 financial year. This new levy would replace and subsume almost all of the indirect taxes that are presently levied in India.

Group: IV

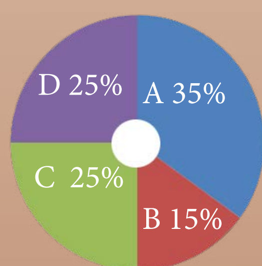
Paper 19:

COST AND MANAGEMENT AUDIT (CMAD)

CMA S SSonthalia
Practicing Cost Accountant, Bhubaneswar
He can be reached at:*sonthalia_ss@yahoo.co.in*

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

Standards on Cost Auditing – Its importance and implication

Cost audit is an independent examination of cost records maintained by the company. The cost records are to be maintained by the company as per the principles prescribed in CRA – 1, which are mandatory for the companies as prescribed in Rule – 3 of Companies (Cost Records and Audit) Rules, 2014.

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

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

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

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

- This Standard deals with the auditors' responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.
- The Cost Auditor shall consider all relevantfactors. These relevant factors include:

  (a) Results of preliminary activities such as-letter of appointment and legal formalities regarding his appointment

  (b) Knowledge from previous audits and other engagements with the auditee.

  (c) Knowledge of business

  (d) Nature and scope of the audit

  (e) Statutory deadlines and reporting format

  (f) Relevant factors determining the direction of the audit efforts

  (g) Nature, timing and extent of resources required for the audit.

- The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work. Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
- The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes.

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

- The objective of this Standard is to guide the members to prepare documentation that provides:

  (a) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and

  (b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.

- The cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached. The documentation usually contains checklists (of compliance with relevant rules),audit programs of verification of each cost elements (Material cost, Employees cost, Repairs cost etc.), analysis for true & fair view of costs, audit query list, letters of conformation.

- Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.

- The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:

  (a) Conformance of audit procedures performed with legal and regulatory requirements;

  (b) Conformance to Cost Auditing Standards

  (c) The results of audit procedures performed

  (d) The audit evidence obtained

  (e)Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

- The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders in the manner of minutes of discussion with persons involved with the management of the company and the third parties in relation to the audit.

- The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard.

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

- The Cost auditor's overall objectives areto obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the Cost of aproduct, activity or service.

- The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

- The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.

- The auditor shall obtain sufficient and appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which the auditor's opinion is based.

- The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder

- An attitude of professional scepticism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof.

- The cost auditor is responsible for forming and expressing an opinion on the Cost Statements.

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

- This standard deals with obtaining the knowledge of the client's business, its processes and business environmentto develop a reasonable assurance in order to express an opinion on the cost statements

- The cost auditor should obtain an understanding of the nature of the entity, relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework, the entity's selection and application of cost accounting policies, internal controls relevant to the audit.

- The cost auditor shall identify and assess the risks of material misstatement at the cost statement level.
- While understanding controls that are relevant to the audit, cost auditor should evaluate the design of those controls and determine whether they have been implemented properly, by performing procedures in addition to discussions with the entity's personnel.
- The cost auditor should understand the related cost accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred primarily to the accounting system and subsequently to cost accounting statement.

SMILE is a curve that sets everything STRAIGHT
keep SMILING!!!!!!!!

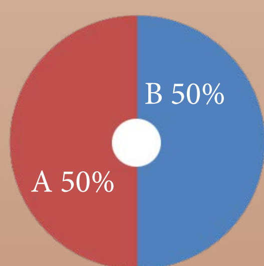
Group: IV
Paper 20 :

STRATEGIC PERFORMANCE MANAGEMENT & BUSINESS VALUATION (SPBV)

Dr. Tanupa Chakraborty
Associate Professor
Department of Commerce
University of Calcutta
She can be reached at: ***tanupa_cu@hotmail.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!

The Road Ahead To Success

Key Success Factors for Qualifying Professional Examination:

- Hard work, to which there is no alternative
- Better time management
- Methodical study
- Application of mind in examination

Having noted the above, the final year students of CMA should understand that this Paper 20 on 'Strategic Performance Management & Business Valuation' which they have to appear from June 2017 examination onwards under the new 2016 syllabus is basically an amalgam of two papers Paper 17 (Strategic Performance Management) and Paper 20 (Financial Analysis & Business Valuation) under the old 2012 syllabus. Since the pattern of questions likely to be set is not known, going by old practice and given the fact that equal weightage of 50 marks is assigned to each of the two sections - Strategic Performance Management and Business Valuation, the students can expect a pattern of a 20 marks question and three 10 marks questions or a 20 marks question, two 10 marks questions and two 5 marks questions from each of the two sections out of one / two extra choice of questions. Accordingly, the following is the checklist for preparation and success in Paper 20 examination.

✔ Collect question papers and suggested answers of lat six terms at least for Papers17 & 20 under 2012 syllabus.

✔ Group the last terms' questions in accordance with the 4 Units to each section A (Strategic Performance Management) and B (Business Valuation).

✔ Of the time that has been allotted for Paper 20, divide the preparation time equally between Sections A & B as both carry equal marks and between the units of each section, divide the allotted time for each section proportionately as follows:

Section A: Strategic Performance Management (1/2 of time allotted for Paper 20)

Unit 1: Conceptual Framework of Performance Management **(20% of time allotted for Section A)**

Unit 2: Performance Evaluation & Improvement Tools **(30%)**

Unit 3: Economic Efficiency of the Firm – Performance Analysis **(30%)**

Unit 4: Enterprise Risk Management **(20%)**

Section B: Business Valuation (1/2 of time allotted for Paper 20)

Unit 5: Business Valuation Basics **(15% of time allotted for Section B)**

Unit 6: Valuation Models **(30%)**

Unit 7: Valuation of Assets and Liabilities **(30%)**

Unit 8: Valuation in Mergers and Acquisitions **(25%)**

✓ In Unit 1 (Section A) students may expect primarily theoretical and conceptual based questions; so be thorough with the study notes and try to find out whether you can answer all the questions listed at the end of unit 1 and all the last terms' questions grouped under unit 1 of 2nd bullet step P. The students may also expect case study based questions on supply chain management and customer relationship management.

✓ In Unit 2 (Section A) students must be well versed with the various performance evaluation tools such as balanced score card, benchmarking and bench trending, six sigma, SQC, TQM, TPM etc., their advantages, limitations if any. Students may expect theoretical questions from this part and also case study based questions on balanced scorecard, TQM, and six sigma. Students may also get problems on Du Pont analysis from this part. So, thoroughly practise illustrative problems, questions of this unit and see whether all the last terms' questions listed for this unit can be answered.

✓ In Unit 3 (Section A) students should be familiar with different concepts of cost, revenue, different types of demand, forms of market such as perfect competition, monopoly etc., price, income and cross elasticity of demand, and more importantly with the proof of various economic relationships between cost, revenue and profit and illustrative problems thereon. The students should attempt all questions of this unit and last terms' and expect problems with conceptual based questions from this part in the exam.

- ✓ In Unit 4 (Section A) questions may be primarily theoretical on various issues of risk management, risk mapping, enterprise risk management and risk management tools such as value at risk, with problems on Altman's distress prediction model. Hence the prerequisite is to be thorough with the study notes and attempt all the questions and illustrative problems enlisted in this unit and also all last terms' questions set from this unit.
- ✓ In Unit 5 (Section B) students should familiarise themselves with the meaning of value, different types of values, valuation bias and errors etc. and should expect theoretical questions from this part and hence should be able to answer all probable questions listed in this unit and in last terms' question papers.
- ✓ In Unit 6 (Section B) problems are likely to be set with conceptual questions. So, students should be thorough with the conceptual part of all non-discounted, discounted cash flow and other methods of valuation and practise all the illustrative problems and last terms' questions.
- ✓ In Unit 7 (Section B) again problems are likely to be set especially on inventory, share, bond valuation with conceptual differences between EVA and MVA and related problems, and case study based questions on valuation of intangibles and human resource. Students should therefore practise all the illustrative problems and last terms' questions.
- ✓ In Unit 8 (Section B) students should be thorough with the meaning of mergers and acquisitions, different types of mergers, concepts of synergy, swap ratio and purchase consideration, different valuation models for mergers and practise all illustrative problems and questions of last terms' and those enlisted in the unit. Students may expect primarily theoretical based questions with problems on swap ratio, purchase consideration, synergistic gains, and impact of merger on share valuation from this part in the exam.
- ✓ Having taken note of the above, students must understand that where they primarily lack is practise. So, the more they practise the illustrative problems and revise the conceptual aspects, the more confidence they will gain in appearing for the exam. Don't mug up theory without understanding the concept, as it doesn't help in the end. A mock test of any of the last term's question paper at home within the allotted time may enhance confidence level.
- ✓ In case further clarification is needed on any particular topic, the following references may come handy.

For Section A (Strategic Performance Management)

- "Performance Management" By Linda Ashdown, Kogan Page Publication

For Section B (Business Valuation)

- "Damodaran on Valuation" By Aswath Damodaran, Wiley Publication.
- "Investment Valuation" By Aswath Damodaran, Wiley Publication.

- ✓ In exam, first read the question paper carefully and identify the section that you know and can recollect best to attempt all the questions of that section first and then the other section subsequently. Start answering with the question where you can put in your best, and preferably it should be a long 20 marks question. Never start answering with the questions where you cannot give your best because that affects the impression of the examiner. Divide your allotted time properly between long and short questions depending on your level of understanding and knowledge so that you can complete answering within stipulated time.

Hope the above tips come good and wish all the students very best for their ensuing Final Exam in Paper 20!

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!

Dear Sir,

its a very nice start and will help a lot to the students. I am final year student. Earlier I have submitted my request to upload RTP and MTP well in advance to get latest update to us, which may really assist during exam. Also it serves to upgrade varied changes, dynamic approaches and evaluated summaries reflect a Primafacie outlook.

regards

Deepak Sharma
deepakshar141000@gmail.com
ICMA Final

Hello,

The E-bulletin is really very wonderful and supporting activity for students. It helps to get relevant stuff to enhance the knowledge which is so easy to access even on mobile.
I would suggest to send such information on daily basis and ask some questions about the bulletin so that students may take more interest to read.
Feeling and would say "Happy Reading".

Thanks,

Navin Sharma
sharmanavin16@gmail.com

Updation of E-Mail Address / Mobile:

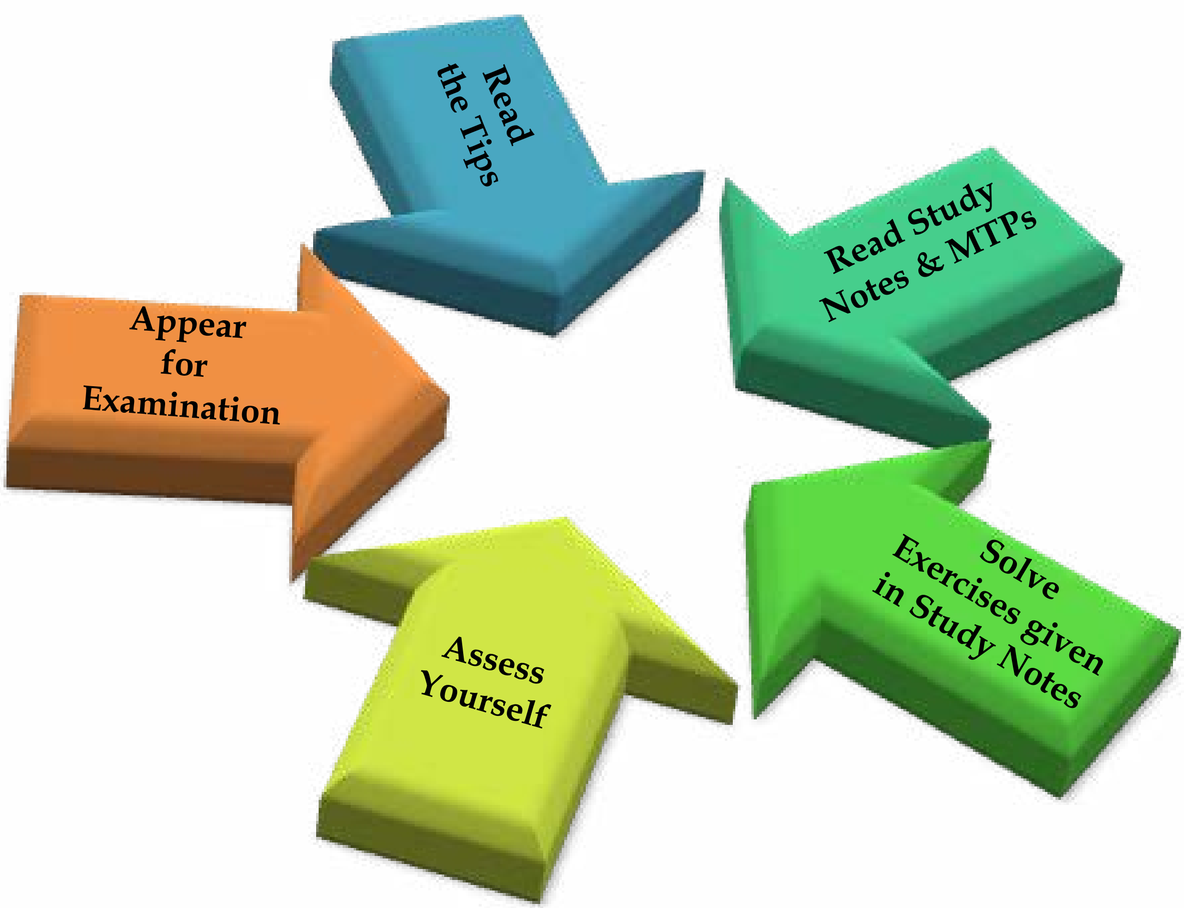
Students are advised to update their E-Mail Id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Students may update their E-mail Id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.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

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.

PHOTOGRAPH OF SIGNING MOU

The President CMA Manas Kumar Thakur of The Institute of Cost Accountants of India & Prof. Basab Chaudhuri , Vice Chancellor of the West Bengal State University, Barasat, W.B. has signed a MoU on 9th February, 2017.

Hundreds take part in ICAI's 'Mayukha 2K17'

STAFF REPORTER

VIJAYAWADA: Hundreds of students from about 80 junior, UG and PG colleges took part in the State-level students' convention 'Mayukha 2K17' organised by the Vijayawada Chapter of the Institute of Cost Accountants of India (ICAI) in the city on Saturday.

Students belonging to various streams exhibited their talent in competitions like quiz, drawing, word game, team building, memory doctor, balance sheet analysis and others, according to one of the organisers Purnima, distribution followed by cultural performances by students of the ICAI, Vijayawada.

Students participating in 'Mayukha 2K17' State-level CMA convention in Vijayawada on Saturday.
— PHOTO: V RAJU

Speaking at the closing ceremony, ICAI, Kolkata, president CMA Manas Kumar called on the students to hone communication skills.

Indian Oil Corporation General Secretary Badrinath, AP HUDCO Regional Head L. Sudhakar Babu, APSRTC Vijayawada Region Chief Accounts Officer K. Ramachandrarao, Mylan Laboratories Vice-President V.N.V. Subba Rao, Central Council Member CMA S. Paparao, ICAI Vijayawada Chapter Chairman CMA PSR Swamy, ICAI Vice President Sanjay Gupta, SIRC Chairman V. Murali and others were present.

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

Headquarters: CMA Bhawan 12, Sudder Street, Kolkata – 700 016
Tel: +91-33 2252 1031/1034/1035/1492/1602/1619/7373/7143

Delhi Office: CMA Bhawan 3, Institutional Area Lodhi Road, New Delhi - 110003
Phones : +91 11 24666100, 24622156/57/58

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