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CMA STUDENTS' E-BULLETIN

FINAL

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Behind every successful business decision, there is always a CMA

STUDENTS' E-bulletin Final DECEMBER 2017, ISSUE

VOL: 2, No.: 10

Contents

KNOWLEDGE UPDATE

In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

STUDENTS' E-bulletin Final DECEMBER 2017, ISSUE 2

VOL: 2, No.: 10

Group - III
Paper - 13
Corporate Laws & Compliance (CLC)

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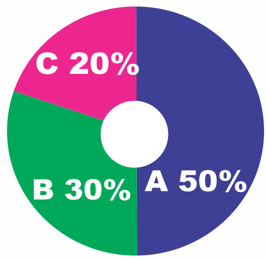
Your Preparation Quick Takes



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

Learning Objectives:

Read the Study Material minutely.

For details or if you don't understand Study Material or the section is important to identify the topic, then refer to Bare Act, otherwise reference to Bare Act is not necessary. For Company Law, book by Avtar Singh is recommended. For other laws Institute Study Material is sufficient.

The words used in any of the texts as mentioned above should be understood by immediate reference to the Dictionary.

The main points coming out in any of the provisions should be either underlined or written in separate copy which has to be repeated again and again.

Theoretical knowledge should be adequate and clear before solving practical problems.

Don't write wrong English. It changes the meaning and therefore answer may be wrong even when the student's conception is clear. Also don't make spelling mistakes.

CORPORATE LAWS AND COMPLIANCES

1.0 How to answer questions in Examination-General Advise

1) Don't read the whole question paper: Start writing a question without wasting time.
2) Answer should be relevant. Read the question carefully. Don't write whatever you know about the topic.
3) Don't refer to sections unless you are quite sure about the same.
4) Language should be clear and understandable. Don't write wrong English or use wrong spellings.
5) Relate the number allotted against each question. Normally one page for 5 marks is OK. In case number allotted is less and you feel the answer will be bigger then mention the points only.
6) In essay type or long answer, write with paragraphs and points, so that the examiner finds it easy to locate the actual answer.
7) Where answer has parts, attempt all answers serially at one place only.

Revise the chapters once you complete reading.

Threshold limits mentioned under various provisions are to be read and remembered.

Company Law may be divided into Five Parts:

a) Interpretation and types
b) Management of the Company
c) Accounts, Audit and Dividend
d) Shareholder's role and rights
e) End of a company

Study the reading material. For clarity and further study you may keep the bare act alongwith the Companies Act with you for reference.

Special care should be taken to understand the definitions of various terminologies used in the Companies Act.

Company capital

Any business will have only two sources of capital. Own capital or loan capital, which is called equity capital and credit capital. The equity capital shall be permanently invested in the company whereas the loan has to be repaid after a certain period as per the terms of laon. However, there may conversion of loan into equity or equity into loan, if the company and the investor so decides.

The various types of instruments for raising capital is discussed below.

Shares and Debentures

Shares and debentures are the main source of long term source of capital. Companies Act does not consider working capital as capital and therefore the restrictions relating to treatment of capital do not apply to working capital.

Shares defined

A share is defined as unit of ownership that represents an equal proportion of a company's capital. It entitles its holder (the shareholder) to an equal claim on the company's profits and an equal obligation for the company's debts and losses.

Two major types of shares are (1) ordinary shares (common stock), which entitle the shareholder to share in the earnings of the company as and when they occur, and to vote at the company's general meetings of shareholders, and (2) **preference shares** (preferred stock) which entitle the shareholder to a fixed predetermined rate of dividend but generally do not have voting rights. The dividend is payable only when the Company makes adequate profits. This kind of shares is preferred for both payment of dividend and the payment of principal (redemption) on liquidation. Otherwise also preference shares have to be redeemed within 10 years of date of issue (20 years in case of infrastructure companies)

Types of Share Capital:

There are various terms used in connection with the share capital of the company. They are as follows:

Authorized / Registered / Nominal Capital-

This is the Maximum Capital which the company can raise. This is mentioned in the Memorandum of the Association of the Company. It is also called Registered Capital or Nominal Capital. Authorised capital may be increased by altering the Memorandum of Association.

Issued Capital-

This is the part of the Authorised Capital which is issued to the public for subscription i.e. any person to whom the invitation is made may subscribe for shares. Private limited companies can issue shares to its existing shareholders by way of rights issue or by way of giving them bonus shares or it can issue securities through private placements. The act of creating new issued shares is called issuance, allocation or allotment. After allotment, a subscriber becomes a shareholder. The number of issued shares is a subset of the total authorized shares.

Subscribed Capital-

The issued Capital may not be fully subscribed (applied for) by the investor/public. Subscribed Capital is that part of issued Capital for which applications are received from the public. In case applications are for more than the issued capital, we call it over subscription. If it is less, it is called under subscription.

Paid-up Capital-

The part of subscribed capital which have been paid to the company by the investors i.e. the Company may require 50% of the value of shares while making subscriptions. In such case 50% of the value received by the company shall be the paid up capital.

For any company, paid-up capital is important as many provisions of the Act and Rules require various types f compliances based on paid-up capital.

Debentures

A debenture is a type of long term debt instrument which acknowledges debt. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital. Debentures may be secured or unsecured.

Types of Debenture:

The major types of debentures are redeemable, irredeemable, convertible, non-convertible, fully, partly, secured, unsecured, fixed, floating rate, zero coupon, deep discount. Following are the various types of debentures vis-a-vis their basis of classification:

Redeemable and Irredeemable (Perpetual) Debentures

Redeemable debentures carry a specific date of redemption on the certificate. The company is legally bound to repay the principal amount to the debenture holders on that date. On the other hand, irredeemable debentures, also known as perpetual debentures, do not carry any date of redemption. This means that there is no specific time of redemption of these debentures. They are redeemed either on the liquidation of the company or when the company chooses to pay them off to reduce its liability by issues a due notice to the debenture holders beforehand.

Convertible and Non-Convertible Debentures

Convertible debenture holders have to convert their holdings into equity shares. The rate of conversion and the period after which the conversion will take effect are declared in the terms and conditions of the agreement of debentures at the time of issue. On the contrary, non-convertible debentures are simple debentures which will continue to be debentures till redemption. However, if option is given to the investor to convert or not to convert the debenture into shares, this kind of debenture is called optionally convertible debentures.

Fully and Partly Convertible Debentures

Convertible Debentures are further classified into two – Fully and Partly Convertible. Fully convertible debentures are completely converted into equity whereas the partly convertible debentures have two parts. Convertible part is converted into equity share as per agreed rate of exchange based on terms of issue. Non-convertible part remains as redeemable debenture which is repaid after the expiry of the agreed period.

Secured and Unsecured Debentures

When the debenture is secured by the charge on some asset or set of assets it is known as secured or mortgage debenture and when it is issued solely on the credibility of the issuer is known as the naked or unsecured debenture. In case of unsecured debenture, the Debentureholder is like any other unsecured creditor. In case of secured debenture, there is a security created by the company on its assets. In case of issue of debenture on private placement basis, the security can be decided by the issuer company and the investor. Public issue of debentures have to be secured, if the maturity period is more than 18 months. In such case, a debenture trustee is appointed, to whom the security is mortgaged with a condition that if the company fails to repay interest or principal, the debenture trustee shall have right to sale off the property and satisfy the claims of debenture holders both interest and principal.

Fixed and Floating Rate Debentures

Fixed rate debentures have fixed interest rate over the life of the debentures. The floating rate debentures have the floating rate of interest which is dependent on some benchmark rate and goes on fluctuating depending on market conditions.

Zero Coupon Debentures

Zero coupon debentures do not carry any coupon rate (interest) or we can say that there is zero coupon rate. The debenture holder will not get any interest on these types of debentures. In such case a warranty is issued with a debenture which may have entitlement to get a share at discount. This compensates the interest foregone. However, zero coupon rate debentures may be issued at discount and are normally called "discounted bonds". If the maturity period is long it is called "deep discount bond".

Raising of Capital

A company may raise funds for different purposes depending on the time periods ranging from very short to fairly long duration. The total amount of financial needs of a company depends on the nature and size of the business. The scope of raising funds depends on the sources from which funds may be available. The business forms of sole proprietor and partnership have limited opportunities for raising funds. They can finance their business by the following means :-

- Investment of own savings
- Raising loans from friends and relatives
- Arranging advances from commercial banks
- Borrowing from finance companies

Companies can Raise Finance by a Number of Methods. To Raise Long-Term and Medium-Term Capital, they have the following options:-

Issue of Shares

It is the most important method. The liability of shareholders is limited to the face value of shares, and they are also easily transferable. A private company cannot invite the general public to subscribe for its share capital and its shares are also not freely transferable. But for public limited companies there are no such restrictions. There are two types of shares :-

- **Equity shares-** The rate of dividend on these shares depends on the profits available and the discretion of directors. Hence, there is no fixed burden on the company. Each share carries one vote.
- **Preference shares-** dividend is payable on these shares at a fixed rate and is payable only if there are profits. Hence, there is no compulsory burden on the company's finances. Such shares do not give voting rights.

Issue of Debentures

Debentures amount to loan and therefore should be within the borrowing powers of the directors. It is mostly issued to finance the long-term requirements of business and do not carry any voting rights.

Loans from Financial Institutions

Long-term and medium-term loans can be secured by companies from financial institutions like the Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India (ICICI) , State level Industrial Development Corporations, etc. These financial institutions grant loans for a maximum period of 25 years against approved schemes or projects. Loans agreed to be sanctioned must be covered by securities by way of mortgage of the company's property or assignment of stocks, shares, gold, etc.

Loans from Commercial Banks

Medium-term loans can be raised by companies from commercial banks against the security of properties and assets. Funds required for modernisation and renovation of assets can be borrowed from banks. This method of financing does not require any legal formality except that of creating a mortgage on the assets.

Public Deposits

Companies often raise funds by inviting their shareholders, employees and the general public to deposit their savings with the company. The Companies Act permits such deposits to be received for a period up to 3 years at a time. Public deposits can be raised by companies to meet their medium-term as well as short-term financial needs.

Sweat Equity Shares

"Sweat equity shares" means such equity shares, which are issued by a Company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.**Stock Option**

A stock option is a privilege, sold by one party to another that gives the buyer the right, but not the obligation, to buy or sell a stock at an agreed-upon price within a certain period of time

Group - III
Paper - 14
Strategic Financial Management (SFM)

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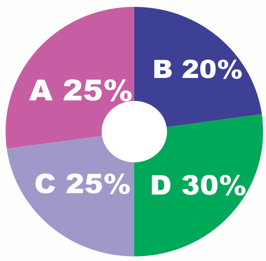
Your Preparation Quick Takes



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, you will be able to:

- *understand the concepts of risk adjusted discount rate method and certainty equivalent method*
- *solve the numerical problems by applying of risk adjusted discount rate method and certainty equivalent method*

Strategic Financial Management

Although you can reach the general conclusion that one project is riskier than another with the help of different measures of stand-alone risk, it is very difficult to develop a really good quantitative measure of project risk, which fully accounts for the time value money and risk. Therefore, two indirect methods are explained to incorporate time and risk into project analysis. These methods which attempt to measure indirectly the risk of each investment proposal are as follows:

(i) Risk adjusted discount rate method and
(ii) Certainty equivalent method.

Risk adjusted discount rate method

In order to allow the riskiness of the future cash flows, a risk premium rate is added to risk-free discount rate under the risk adjusted discount rate method. The risk adjusted discount rate (K*) takes into account both the time and risk factors and is equal to a sum of the risk-free rate and risk premium rate reflecting the investors' attitude towards risk. A high discount rate is used for more risky projects and lower rate for less risky projects.

Once the project's risk adjusted discount rate is specified, the project is accepted if its net present value (NPV) is positive. The NPV of a project can be calculated using the following formula:

$$NPV = \sum_{t=1}^{n} \frac{A_t}{(1+k^*)^t} - I_0$$

where A_t = Expected cash flows
I_o = Initial investment and
K^* = Risk adjusted discount rate
= the risk free rate + the risk premium.

Certainty equivalent method

Certainty equivalent method adjusts the expected cash flows to account for risk and then uses the risk-free rate to compute the NPV. This method makes separate adjustments for time by using risk-free rate as the discount rate and for risk by converting risky cash flows into certain cash flows.

Under the certainty equivalent method, the net present value is calculated as follows:

$$NPV = \sum_{t=1}^{n} \frac{\alpha_t A_t}{(1+i)^t} - I_0$$

where A_t = Expected cash flow for year t
i = Risk-free interest rate
I_o = Initial investment
α_t = Certainty equivalent coefficient for the cash flow of year t.

A certainty equivalent factor (α_t) is the ratio of certain cash flow to risky cash flow. Multiplying the cash flow by α_t produces a certain cash flow for a specific year. This coefficient reflects the finance manager's perception of the degree of risk associated with the estimated cash flow. For cash inflows α_t ranges from 0 to 1. A value of 1 implies that the cash flows are certain. As the risk of the expected cash inflows increases, the coefficient decreases. However, the opposite relationship exists for risky cash outflows where certainty equivalent coefficient exceeds 1.

Example 1

A project requires an initial investment of Rs. 2, 00,000 and cash inflows after tax (CFAT) are Rs. 1, 00,000, Rs. 1, 20,000 and Rs. 80,000 at the end of 1st year, 2nd year and 3rd year respectively. Risk-free rate of interest is 6% and the risk premium has been estimated as 14% by the finance manager. Evaluate the project using the risk adjusted discount rate method.

Solution

The risk adjusted discounting rate (K*) for the current project = Risk-free rate + Risk premium = 6% + 14% = 20%.

$$NPV = \sum_{t=1}^{n} \frac{A_t}{(1+k^*)^t} - I_0$$

$$= \frac{1,00,000}{(1+0.20)} + \frac{1,20,000}{(1+0.20)^2} + \frac{80,000}{(1+0.20)^3} - 2,00,000$$

= (1, 00,000 x 0.833) + (1, 20,000 x 0.694) + (80,000 x 0.579) -2, 00,000

= Rs. 12,900

As the project's expected NPV is positive, the project should be accepted.

Example 2

X Co. Ltd employs the certainty equivalent method in the evaluation of risky investments. The company has developed the following information regarding the new project:

Year	Expected CFAT (Rs.)	Certainty equivalent coefficient
0	-4,00,000	1.0
1	3,20,000	0.8
2	2,80,000	0.7
3	2,60,000	0.6
4	2,40,000	0.4
5	1,60,000	0.3

The firm's weighted average cost of capital is 15% and the risk-free rate of interest in the market is 7%. Should the project be accepted?

Solution

In the certainty equivalent method, the appropriate rate of discount is the risk-free rate of interest as the risk is adjusted with the cash flows. Accordingly, the rate of discount would be 7%. In this method NPV is calculated as:

$$NPV = \sum_{t=1}^{n} \frac{\alpha_t A_t}{(1+i)^t} - I_0$$

Table showing the necessary calculations

Year	Expected CFAT (A_t) (Rs.)	Certainty equivalent coefficient (α_t)	$\alpha_t A_t$
0	-4,00,000	1	-4,00,000
1	3,20,000	0.80	2,56,000
2	2,80,000	0.70	1,96,000
3	2,60,000	0.60	1,56,000
4	2,40,000	0.40	96,000
5	1,60,000	0.30	48,000

$$NPV = Rs.\left[\frac{2,56,000}{(1+0.07)} + \frac{1,96,000}{(1+0.07)^2} + \frac{1,56,000}{(1+0.07)^3} + \frac{96,000}{(1+0.07)^4} + \frac{48,000}{(1+0.07)^5} - 4,00,000\right]$$

= Rs. [(2, 56,000 x 0.935) + (1, 96,000 x 0.873) + (1, 56,000 x 0.816) + (96,000 x 0.763) + (48,000 x 0.713) – 4, 00,000] = Rs. 2,45,236

The project should be accepted since the computed NPV is positive.

Group - III
Paper - 15
Strategic Cost Management - Decision Making (SCMD)

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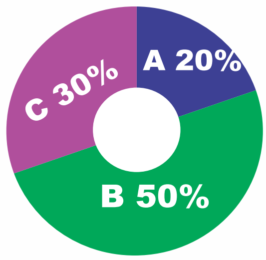
Your Preparation Quick Takes



Syllabus Structure
A Cost Management **20%**
B Strategic Cost Management Tools and Techniques **50%**
C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Learning Objectives:

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

- Is there a plan for strategic cost management?
- Have the controlling functions for each significant cost in the organization been identified?
- Are there resources devoted to finding or obtaining new approaches to breaking cost barriers?
- Is cost modelling being used or is there an active effort to develop or buy cost modelling capability?

Illustration of Cost Variances

XPM Limited: Monthly Data of Production and Cost

Serial	Item	Standard	Actual
1	Working Days	30	29
2	Production in MT	1025	1060
3	Sale price in Rs. Per MT	40250	40000
4	Yield (%)	0.82	82.50%
5	Raw Material		
A	Quantity (MT)	1250	1285
B	Raw Material Mix		
I	Grade I	60%	58%
II	Grade II	40%	42%
C	Raw Material Mix (Quantity in MT)		
I	Grade I	750.00	745.30
II	Grade II	500.00	539.70
III	Sub Total (i+ii)	1250	1285.00
D	Raw Material Prices in Rs. per MT		
I	Grade I	20000	20250
II	Grade II	16000	15750

6	Workers		
A	Number of Workers		
I	Skilled	35	34
II	Semi Skilled	45	46
III	Sub Total (i+ii)	80	80
B	Man Days		
I	Skilled	1050	986
II	Semi Skilled	1350	1334
C	Wage Rate in Rs. per Day		
I	Skilled	700	725
II	Semi Skilled	600	625
7	Power		
a	KWH per MT of Production	650	640
b	Rs. Per KWH	7	7.10
8	Fuel		
a	MT per MT of Production	0.60	0.58
b	Rs. Per MT	3000	3100
9	Chemical Consumption (Rs. Per MT)	1800	1750
10	Wire Clothing (Rs. Per MT)	400	380
11	Packing Material (Rs. per MT)	300	320
12	Factory Expenses (Rs. Lakhs Per Month)	12.00	11.50
13	Admn. Expenses (Rs. Lakhs Per Month)	18.00	20.00
14	Selling Expenses (Rs. Lakhs Per Month)	12.00	12.50

XPM Limited: Cost Variances

1. Material Cost Variance

(Standard Cost for Actual Production – Actual Cost for Actual Production) = (237.85 – 235.92) = Rs. Lakhs 1.93 Favourable

Workings

	Standard Cost for Actual Production			Actual Cost for Actual Production		
Description	Standard Quantity (MT)	Standard Price (Rs./MT)	Standard Cost (Rs. Lakhs)	Actual Quantity (MT)	Actual Price (Rs./MT)	Actual Cost (Rs. Lakhs)
Grade 1	775.61	20000	155.12	745.30	20250	150.92
Grade 2	517.07	16000	82.73	539.70	15750	85.00
Total	1292.68		**237.85**	1285.00		**235.92**
Process Loss	(232.68)			(225.00)		
Output	1060			1060		

Standard Quantity for Actual Production = (Actual Output / Standard Yield) x Standard Proportion
Workings for Grade 1 = (1060 / 82%) 60% = 775.61
Workings for Grade 2 = (1060 / 82%) 40% = 517.07

1 (a) Material Usage Variance

(Standard Price for Standard Quantity of Actual Production – Standard Price for Actual Quantity = (237.85 – 235.41) = Rs. Lakhs 2.44 Favourable

Workings

Description	Standard Price for Standard Quantity of Actual Production			Standard Price for Actual Quantity of Actual Production		
	Standard Price (Rs./MT)	Standard Quantity (MT)	Cost (Rs. Lakhs)	Standard Price (Rs./MT)	Actual Quantity (MT)	Cost (Rs. Lakhs)
Grade 1	20000	775.61	155.12	20000	745.30	149.06
Grade 2	16000	517.07	82.73	16000	539.70	86.35
Total		1292.68	**237.85**		1285.00	**235.41**

1 (b) Material Price Variance

(Actual Quantity at Standard Price – Actual Quantity at Actual Price) = (235.41 – 235.92) = Rs. Lakhs 0.51 Un Favourable

Workings

Description	Actual Quantity at Standard Price			Actual Quantity at Actual Price		
	Actual Quantity (MT)	Standard Price (Rs./MT)	Cost (Rs. Lakhs)	Actual Quantity (MT)	Actual Price (Rs./MT)	Cost (Rs. Lakhs)
Grade 1	745.30	20000	149.06	745.30	20250	150.92
Grade 2	539.70	16000	86.35	539.70	15750	85.00
Total	1285.00		235.41	1285.00		235.92

Check

Material Cost Variance = (Material Usage Variance + Material Price Variance) = 2.44F + 0.51 UF = 1.93 F

1 (c) Material Mix Variance

(Standard Cost of Standard Quantity – Standard Cost of Actual Quantity) = (230.00 – 235.41) = Rs. Lakhs 5.41 Un Favourable

Workings

Description	Standard Cost of Standard Quantity			Standard Cost of Actual Quantity of Actual Production		
	Standard Price (Rs./MT)	Standard Quantity (MT)	Cost (Rs. Lakhs)	Standard Price (Rs./MT)	Actual Quantity (MT)	Cost (Rs. Lakhs)
Grade 1	20000	750.00	150.00	20000	745.30	149.06
Grade 2	16000	500.00	80.00	16000	539.70	86.35
Total		1250.00	**230.00**		1285.00	**235.41**

1 (d) Material Yield Variance

(Standard Cost per unit of Output (Standard Yield – Actual Yield) = 0.2244(1025-1060) = Rs. Lakhs 7.85 F

Workings

Standard Cost per unit of Output = (Standard Cost of Standard Quantity / Standard Quantity) = (230.00 / 1250) = 0.2244

Check

Material Usage Variance = (Material Mix Variance + Material Yield Variance) = 5.41 UF + 7.85 F = 2.44F

2. Labour Cost Variance

(Standard Cost for Actual Production – Actual Cost for Actual Production) = (15.98-15.49) = Rs. Lakhs 0.49 Favourable

Workings

Description	Standard Cost for Actual Production			Actual Cost for Actual Production		
	Standard Time (Man Days)	Standard Rate (Rs./Day)	Standard Cost (Rs. Lakhs)	Actual Time (Man Days)	Actual Rate (Rs./Day)	Actual Cost (Rs. Lakhs)
Skilled	1086	700	7.60	986	725	7.15
Semi Skilled	1396	600	8.38	1334	625	8.34
Total	2482		**15.98**	2320		**15.49**

Standard Time for Actual Production = (Standard Man Days / Standard Output) x Actual Output
Workings for Skilled = (1050 / 1025) x 1060 = 1086
Workings for Semi Skilled = (1350 / 1025) x 1060 = 1396

2 (a) Labour Rate Variance

(Standard Cost for Actual Time – Actual Cost for Actual Time) = (14.90 - 15.49) = Rs. Lakhs 0.59 Un Favourable

Workings

Description	Standard Cost for Actual Time			Actual Cost for Actual Time		
	Actual Time (Man Days)	Standard Rate (Rs./Day)	Standard Cost (Rs. Lakhs)	Actual Time (Man Days)	Actual Rate (Rs./Day)	Actual Cost (Rs. Lakhs)
Skilled	986	700	6.90	986	725	7.15
Semi Skilled	1334	600	8.00	1334	625	8.34
Total	2320		**14.90**	2320		**15.49**

2 (b) Labour Efficiency Variance

(Standard Rate for Standard Time of Actual Production – Actual Rate for Actual Time = (15.98 – 14.90) = Rs. Lakhs 1.08 Favourable

Workings

Description	Standard Cost for Standard Time for Actual Production			Actual Cost for Actual Time		
	Standard Time (Man Days)	Standard Rate (Rs./Day)	Standard Cost (Rs. Lakhs)	Actual Time (Man Days)	Actual Rate (Rs./Day)	Actual Cost (Rs. Lakhs)
Skilled	1086	700	7.60	986	700	6.90
Semi Skilled	1396	600	8.38	1334	600	8.00
Total	2482		**15.98**	2320		**14.90**

Check

Labour Cost Variance = (Labour Rate Variance + Labour Efficiency Variance) = 0.59 UF + 1.08 F = 0.49 F

3. Power Cost Variance

(Standard Cost for Actual Production – Actual Cost for Actual Production) = (1060 x 650 x 7) – (1060 x 640 x 7.10) = (48.23 – 48.17) = Rs.Lakhs 0.06 Favourable

3 (a) Power Rate Variance

(Standard Cost for Actual Units – Actual Cost for Actual Units) = (1060 x 650 x 7.00) - (1060 x 650 x 7.10) = (48.23 - 48.92) = Rs.Lakhs 0.69 Un Favourable

3 (b) Power Volume Variance

(Standard Cost for standard units of Actual Production – Standard Cost for Actual Production) = (1060 x 650 x 7.00) - (1060 x 640 x 7.00) = (48.23 – 47.49) = Rs.Lakhs 0.74 Favourable

Check

Power Cost Variance = (Power Rate Variance + Power Volume Variance) = 0.68 UF + 0.74 F = 0.06 F

4. Fuel Cost Variance

(Standard Cost for Actual Production – Actual Cost for Actual Production) = (1060 x 0.60 x 3000) – (1060 x 0.58 x 3100) = (19.08 – 19.06) = Rs.Lakhs 0.02 Favourable

4 (a) Fuel Rate Variance

(Standard Cost for Actual Units – Actual Cost for Actual Units) = (1060 x 0.58 x 3000) - (1060 x 0.58 x 3100) = (18.44 – 19.06) = Rs.Lakhs 0.62 Un Favourable

4 (b) Fuel Volume Variance

(Standard Cost for standard units of Actual Production – Standard Cost for Actual Production) = (1060 x 0.60 x 3000) – (1060 x 0.58 x 3000) = (19.08 – 18.44) = Rs.Lakhs 0.64 Favourable

Check

Fuel Cost Variance = (Fuel Rate Variance + Fuel Volume Variance) = 0.62 UF + 0.64 F = 0.02 F

5. Chemical Cost Variance

(Standard Cost for Actual Production – Actual Cost for Actual Production) = (1060 x 1800) – (1060 x 1750) = (19.08 – 18.55) = Rs.Lakhs 0.53 Un Favourable

6. Wire Clothing Cost Variance

(Standard Cost for Actual Production – Actual Cost for Actual Production) = (1060 x 400) – (1060 x 380) = (4.24 – 4.03) = Rs.Lakhs 0.21 Favourable

7. Packing Cost Variance

(Standard Cost for Actual Production – Actual Cost for Actual Production) = (1060 x 300) – (1060 x 320) = (3.18 –3.39) = Rs.Lakhs 0.21 Un Favourable

8. Fixed Cost Expenditure Variance

(Budgeted Cost – Actual Cost) = (12.00 + 18.00 + 12.00) – (11.50 + 20.00 + 12.50) = Rs.Lakhs 2.00 Un Favourable

Group - III
Paper - 16
Direct Tax Laws and International Taxation (DTI)

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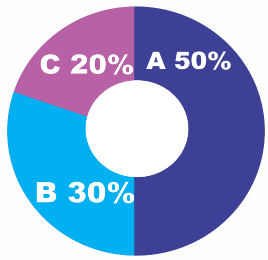
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

To develop basic idea about the problem of International double taxation
To get acquainted with the methods of reliefs
To have acquaintance with the basic provisions of the provisions of the Indian Income-tax Act regarding reliefs for double taxation.

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

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

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

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

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

Where a person, who is required to furnish return of income -

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

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

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

Particulars	Amount	Amount
Tax determined u/s 143(1) or on Regular assessment*		***
Less: Advance Tax paid	***	
Relief u/s 90 or 90A or 91	***	
Credit allowed u/s 115JAA (MAT Credit)	***	
Tax deducted/collected at source	***	***
		***

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

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

Period: For every month or part of a month commencing from the day immediately following the due date for furnishing return for the relevant assessment year and ending on:

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

Taxpoint

1. For the purpose of self-assessment u/s 140A, interest shall be calculated on tax liability as declared in the return by the assessee.
2. As interest liability u/s 234A is different, in case of assessment by assessee himself (i.e. self- assessment) and assessment made by income tax authority (i.e. assessment u/s 143(1) or regular assessment), therefore, interest paid u/s 234A at the time of self-assessment shall be reduced from final interest liability u/s 234A.
3. Interest shall not be charged where delay in filing return is due to strike in income-tax department

Illustration 1

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

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

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

Solution

Computation of interest u/s 234A

Particulars	Code	A	A Ltd.	B
Period of default	A#	5 months (Aug. to Dec.)	4 months (Oct. to Jan.)	7 months (Aug. to Feb.)
Assessed Income	B	6,10,000	5,50,000	12,00,000

Tax rate	C	Slab-rate	30%	Slab rate
Tax liability before surcharge	D=B*C	47,000	1,65,000	1,85,000
Rate of Surcharge	E	Nil	Nil	Nil
Surcharge	F=D*E	Nil	Nil	Nil
Tax and surcharge payable	G=D+F	47,000	1,65,000	1,85,000
Education cess& SHEC	H=G*3%	1,410	4,950	5,550
Tax liability on assessed income	I=G+H	48,410	1,69,950	1,90,550
Less: Advance tax paid &TDS	J	40,000	40,000	1,80,000
Shortfall	K=I–J	8,410	1,29,950	10,550
Rounded off	L	8,400	1,29,900	10,500
Interest (1% * A * L)		420	5,196	735

Note: Tax paid along with return shall not be considered.
Computation of interest u/s 234A for the purpose of sec.140A

Name of the assessee	Code	A	A Ltd.
Period of default	A#	5 month (Aug. to Dec.)	5 month (Oct. to Jan.)
Returned Income	B	5,80,000	5,00,000
Tax rate	C	Slab-rate	30%
Tax liability before surcharge	D = B * C	41,000	1,50,000
Rate of Surcharge	E	Nil	Nil
Surcharge	F = D * E	Nil	Nil
Tax & surcharge on above	G=D+F	41,000	1,50,000
Education cess& SHEC	H=G*3%	1,230	4,500

Tax liability on assessed income	I=G+H	42,230	1,54,500
Less: Advance tax paid & tax deducted at source	J	40,000	40,000
Shortfall	K=I-J	2,230	1,14,500
Rounded off	L	2,200	1,14,500
Interest (1% * A * L)		**110**	**4,580**

It is to be noted that when interest is calculated on monthly basis, any fraction of the month shall be taken as full month.
Note: In case of B, return has not been filed, hence interest payable u/s 234A at the time of self-assessment cannot be computed.

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

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

(a) advance tax at all; or

(b) 90% of assessed tax as advance tax.

Amount on which interest is to be charged –

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

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

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

Taxpoint

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

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

Illustration 2

A firm furnished its return of income on 30th June, 2017 showing income of ₹ 1,00,000. The return shows other particulars as follows -

Advance tax ₹ 20,000

TDS ₹ 1,000

The AO passed the assessment order enhancing income by ₹ 5,000 on 29-3-2018. Compute interest u/s 234B.

Solution

Computation of interest u/s 234B

Particulars	Amount
Assessed Income	1,05,000
Tax liability before surcharge [₹ 1,05,000 * 30%]	31,500
Add: Education cess& SHEC @ 3%	945
Tax and cess payable	32,445
Less: Tax deducted at source	1,000
Assessed tax	**31,445**
90% of above	28,300
Advance tax paid	20,000
Since advance tax paid by the firm is less than 90% of assessed tax, sec.234B is applicable	
Shortfall (Assessed tax *less* Advance tax paid)	11,445
Rounded off	11,400
Period of default [From April 2017 to March 2018]	12 months
Interest u/s 234B (1% * ₹ 11400 * 12)	**1,368**

For deferment of Advance Tax [Sec. 234C]

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

Amount on which interest is payable

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

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

Types of Assessee	Due date of Instalment (P.Y.)	Amount Payable
An eligible assessee in respect of an eligible business referred to in sec. 44AD	On or before March 15	100% of advance tax liability
In case of other assessee	On or before June 15	Not less than 15% of tax. [Note 1]
	On or before September 15	Not less than 45% of tax as reduced by the amount paid in the earlier installment [Note 2]
	On or before December 15	Not less than 75% of tax as reduced by the amount paid in the earlier installments
	On or before March 15	The whole amount of tax as reduced by the amount paid in the earlier installments

Taxpoint

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

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

Other Points

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

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

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

Illustration 3

A firm made the following payments of advance tax during the financial year 2016-17:

	₹ in lakh
September 15, 2016	7.00
December 15, 2016	7.75
March 15, 2017	10.75
	25.50

The return of income is filed on 31-7-2017 showing -

Business income ₹ 80 lakh

Long term capital gain taxable @ 20% (as on 1-12-2016) ₹ 10 lakh

Compute interest payable u/s 234C.

Solution

Computation of tax liability for A.Y. 2017-18 ₹ in lakh

Particulars	Business income	Long term capital gain
Income	80.00	10.00
Tax rate	30%	20%
Tax liability before cess	24.00	2.00
Add: Education cess& SHEC	0.72	0.06
Tax liability including cess	**24.72**	**2.06**

Computation of interest payable u/s 234C

Particulars	Installment of Advance tax			
	15/6/2016	15/9/2016	15/12/2016	15/3/2017
Rate of Advance tax	15%	45%	75%	100%
Amount payable				
(₹ 24,72,000 * 15%)	3,70,800			

(₹ 24,72,000 * 45%)		11,12,400		
[(₹ 24,72,000 + ₹ 2,06,000) * 75%]			20,08,500	
[(₹ 24,72,000 + ₹ 2,06,000) * 100%]				26,78,000
Less: Amount paid till date	Nil	7,00,000	14,75,000	25,50,000
Shortfall	3,70,800	4,12,400	5,33,500	1,28,000
Rounded off (a)	3,70,800	4,12,400	5,33,500	1,28,000
Period of default (b)	3 months	3 months	3 months	1 month
Interest (1% * a * b)	₹ 11,124	₹ 12,372	₹ 16,005	₹ 1280
Total interest payable u/s 234C			₹ 40,781	

Group - IV
Paper - 17
Corporate Financial Reporting (CFR)

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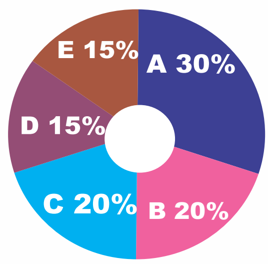
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **30%**
B Accounting if Business Cominations
& 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 best 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, sustain ability 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.

Comparative study of Ind AS 16 and AS 10

Ind AS 16 deals with accounting for property, plant and equipment which are covered by existing AS 10, Accounting for Fixed Assets. Ind AS 16 also deals with depreciation of property, plant and equipment which was covered by AS 6, Depreciation Accounting. Therefore, the major differences mentioned below are between the Ind AS 16 and existing AS 10 and existing AS 6:

1. **Development of real estate:**
   Existing AS 10 specifically excludes accounting for real estate developers from its scope, whereas Ind AS 16 does not exclude such developers from its scope.

2. **Scope of the definition:**
   Ind AS 16, apart from defining the term property, plant and equipment, also lays down the following criteria which should be satisfied for recognition of items of property, plant and equipment:

   (a) It is probable that future economic benefits associated with the item will flow to the entity, and
   (b) The cost of the item can be measured reliably.

Existing AS 10 does not lay down any specific recognition criteria for recognition of a fixed asset. As per the standard, any item which meets the definition of a fixed asset should be recognised as a fixed asset.

3. **Recognition of initial and subsequent costs:**
   As per Ind AS 16, initial costs as well as the subsequent costs are evaluated on the same recognition principles to determine whether the same should be recognised as an item of property, plant and equipment.

   Existing AS 10 on the other hand, prescribes separate recognition principles for subsequent expenditure. As per existing AS 10, subsequent expenditures related to an item of fixed asset are capitalised only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance. Ind AS 16 requires that major spare parts qualify as property, plant and equipment when an entity expects to use them during more than one period and when they can be used only in connection with an item of property, plant and equipment.

4. **Capitalisation of spares:**
   As per existing AS 10, only those spares are required to be capitalised which can be used only in connection with a fixed asset and whose use is expected to be irregular.

5. **Component wise calculation:**
   Ind AS 16 is based on the component approach. Under this approach, each major part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. As a corollary, cost of replacing such parts is capitalised, if recognition criteria are met with consequent derecognition of carrying amount of the replaced part. The cost of replacing those parts which have not been depreciated separately is also capitalised with the consequent derecognition of the replaced parts. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

   Existing AS 10, however, does not mandatorily require full adoption of the component approach. It recognises the said approach in only one paragraph by stating that accounting for a tangible fixed asset may be improved if total cost thereof is allocated to its various parts. Apart from this, neither existing AS 10 deals with the aspects such as separate depreciation of components, capitalising the cost of replacement, etc.

6. **Treatment of cost of major inspections:**
Ind AS 16 requires that the cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection. Existing AS 10 does not deal with this aspect.

7. **Treatment of initial estimate of the costs of dismantling and removing the item and restoring the site:**
In line with the requirement of Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, for creating a provision towards the costs of dismantling and removing the item of property plant and equipment and restoring the site on which it is located at the time the item is acquired or constructed, Ind AS 16 requires that the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located should be included in the cost of the respective item of property plant and equipment. Existing AS 10 does not contain any such requirement.

8. **Selection of accounting policy:**
Ind AS 16 requires an entity to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of property plant and equipment. It requires that under revaluation model, revaluation be made with reference to the fair value of items of property plant and equipment. It also requires that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Existing AS 10 recognises revaluation of fixed assets. However, the revaluation approach adopted therein is ad hoc in nature, as it does not require the adoption of fair value basis as its accounting policy or revaluation of assets with regularity. It also provides an option for selection of assets within a class for revaluation on systematic basis.

9. **Treatment of revaluation surplus:**
Ind AS 16 provides that the revaluation surplus included in equity in respect of an item of property plant and equipment may be transferred to the retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the retained earnings are not made through profit or loss.

As compared to the above, neither existing AS 10 nor existing AS 6 deals with the transfers from revaluation surplus. To deal with this aspect, the Institute issued a Guidance Note on Treatment of Reserve Created on Revaluation of Fixed Assets. The Guidance Note provides that if a company has transferred the difference between the revalued figure and the book value of fixed assets to the 'Revaluation Reserve' and has charged the additional depreciation related thereto to its profit and loss account, it is possible to transfer an amount equivalent to accumulated additional depreciation from the revaluation reserve to the profit and loss account or to the general reserve as the circumstances may permit, provided suitable disclosure is made in the accounts. However, the said Guidance Note also recognises that it would be prudent not to charge the additional depreciation arising due to revaluation against the revaluation reserve.

10. **Treatment of self-constructed assets:**
With regard to self-constructed assets, Ind AS 16, specifically states that the cost of abnormal amounts of wasted material, labour, or other resources incurred in the construction of an asset is not included in the cost of the assets. Existing AS 10 while dealing with self-constructed fixed assets does not mention the same.

11. **Treatment of Interest:**
Ind AS 16 provides that the cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price

equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 16. Similarly, the concept of cash price equivalent has been followed in case of disposal of fixed assets also. Existing AS 10 does not contain this requirement.

12. Treatment of Jointly owned assets:
Existing AS 10 specifically deals with the fixed assets owned by the entity jointly with others. Ind AS 16 does not specifically deal with this aspect as these would basically be covered by Ind AS 31 as jointly controlled assets.

13. Treatment of assets acquired for a consolidated price:
Existing AS 10 specifically deals with the situation where several assets are purchased for a consolidated price. It provides that the consideration should be apportioned to the various assets on the basis of their respective fair values. However, Ind AS 16 does not specifically deal with this situation.

14. Frequency of consideration of residual value and useful life:
Ind AS 16 requires that the residual value and useful life of an asset be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5.
Under existing AS, such a review is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.

15. Frequency of consideration of method of depreciation:
Ind AS 16 requires that the depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. In existing AS 6, change in depreciation method can be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements.

16. Treatment of compensation from third parties:
Ind AS 16 requires that compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable. Existing AS 10 does not specifically deal with this aspect.

17. Treatment of holding assets for rental etc.:
Ind AS 16 deals with the situation where entities hold the items of property, plant and equipment for rental to others and subsequently sell the same. No such provision is there in existing AS 10.

18. Treatment of held for sale:
Ind AS 16 does not deal with the assets 'held for sale' because the treatment of such assets is covered in Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations. Existing AS 10 deals with accounting for items of fixed assets retired from active use and held for sale.

19. Treatment of assets acquired under exchange:
Ind AS 16 requires that if property, plant and equipment is acquired in exchange for a non-monetary asset, it should be recognised at its fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The existing standard requires that when a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. Existing AS 10 also prescribes an alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

20. Disclosure:
The disclosure requirements of Ind AS 16 are significantly elaborate as compared to AS 10.

Group - IV
Paper - 18
Indirect Tax Laws & Practice (ITP)

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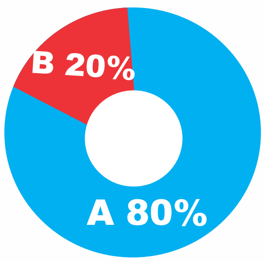
Your Preparation Quick Takes



Syllabus Structure

A Advanced Indirect Tax - Laws & Practice **80%**

B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section, you will be able to:

- *Introduce the concept of Interest on Duty Drawback under Customs;*
- *Understand the scope of interest on duty drawback u/s 75A of the Customs Act, 1962;*
- *Analysis of the provisions of Sec. 75A(1) and Sec. 75A(2);*
- *Provisions of payment of drawback and interest thereon.*

INTEREST ON DUTY DRAWBACK UNDER CUSTOMS ACT

Introduction

The term 'drawback', simply means 'refund of duty or tax'. In the context of customs duty, it happens to be a relief by way of refund of duties paid on inputs or raw materials and service tax paid on the input services used in the manufacture of export goods. As per the provisions of the Customs Act, 1962, there are two instances when drawback is allowed:

- Re-export of imported goods; and
- Imported materials used in manufacture of export goods.

These instances have been provided under Sec. 74 and Sec. 75 of the Customs Act, 1962.

However, in certain circumstances, there may happen some unavoidable delay/ error regarding the payment of such drawback. Such situations ideally involve the payment or recovery of interest on such amount of drawback, as the case may be. In the subsequent sections, the provisions regarding interest on drawback have been extensively discussed.

Interest on Drawback [Sec. 75A of Customs Act, 1962]

Sec. 75A of the Customs Act, 1962 provides for two instances that involve interest on drawback covered under two sub-sections. In the first case, interest is payable by the Department to the exporter in the event of delayed refund of admissible amount of duty drawback. On the other hand, in the second case, interest is chargeable from the exporter on any erroneous or excess payment of drawback. Such interests shall be paid to in addition to the amount of drawback.

Interest on delayed payment [Sec. 75A(1)]

- **Applicability**: Where any drawback that is payable to a claimant under Sec. 74 or Sec. 75 is not paid within a period of one month from the date of filing a claim for payment of such drawback.
- **Payment of interest**: By Department to the claimant assessee (exporter).
- **Rate of interest**: Interest at the rate fixed under Sec. 27A.
- **Period of interest levy**: Interest is chargeable from the date after the expiry of the said period of one month from 'the date of filing a claim' till 'the date of payment of such drawback'.

Interest on erroneous/ excess payment [Sec. 75A(2)]

- **Applicability**: Where any drawback has been paid to the claimant erroneously or it becomes otherwise recoverable under this Act or the rules made thereunder, the claimant shall, within a period of two months from the date of demand.
- **Payment of interest**: By claimant assessee (exporter) to the Department.
- **Rate of interest**: Interest at the rate fixed under Sec. 28AB.
- **Period of interest levy**: The amount of interest shall be calculated for the period beginning from 'the date of payment of such drawback to the claimant' till 'the date of recovery of such drawback'.

NB: This section provides for payment of interest automatically along with excess drawback. Thus, no notice need to be issued separately. *[CPS Textiles (P) Ltd. v. Joint Secretary 2010 (255) E. L. T. 228 (Mad.)]*

Payment of Drawback and Interest thereon

The drawback under these rules and interest, if any, shall be paid by the proper officer of Customs to the exporter or to the agent specially authorised by the exporter to receive the said amount of drawback and interest. The officer of Customs may combine one or more claims for the purpose of payment of drawback and interest, if any, as well as adjustment of any amount of drawback and interest already paid and may issue a consolidated order for payment. The date of payment of drawback and interest, if any, shall be deemed to be, in the case of payment:

a) by cheque, the date of issue of such cheque, or

b) by credit in the exporter's account maintained with the Custom House, the date of such credit.

Group - IV
Paper - 19
Cost & Management Audit (CMAD)

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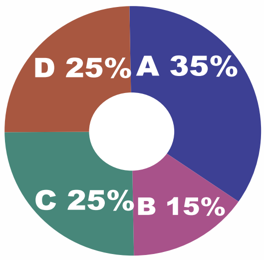
Your Preparation Quick Takes



Syllabus Structure

A Cost Audit **35%**
B Management Audit **15%**
C Internal Audit, Operational Audit and other related issues **25%**
D Case Study on Performance Analysis **25%**

Learning Objectives:

To verify the correctness of the cost accounting records.
To find out whether the principles of cost accountancy have been fully and correctly applied in maintaining cost records.
To search for the deficiencies in the cost record system of the company.
To attain efficiency in cost accounting systems and procedures

Topic: Understanding Allocation and Apportionment of Cost.

The primary objective of Cost accounting is to ensure that the cost statement /cost sheet reflects the true and fair view of cost of production of any product or cost of providing any service. The ecosystem of cost accounting consisting of

a. Understanding production / operation cycle.
b. Identification of cost centres
c. Capturing of cost and
d. Allocation and apportionment of cost to product(s) produced or any service provided.
e. Preparation of cost statements

After understanding the production cycle next step is Identification of cost centres. A Cost Centre is a unit of Cost Accounting identified with a view to accumulating all cost under that unit. The unit may be a product, a service, division, department, section, a group of plant and machinery, a group of employees or a combination of several units.

Costcenters may be broadly be divided into two types i.e. Production Cost Centres andService Cost Centres. Production Cost Centres are those which are engaged inproduction like Machine shop, Welding shop, Assembly shop etc. Service Costcenters are for rendering service to production cost centre like Power house,Maintenance, Stores, Purchase office etc.

After Identification of cost centres, we capture expenses cost centre wise. The expenses/cost are also of broadly of two categories i.e Directexpenses and Indirect expenses.

Direct Expenses are the expenses (other than direct material or direct labour) which can be directly identified or linked with the cost centre /unit such as:

Expenses for special moulds required in a particular cost centre
Hiring charges for tools and equipments for a cost centre
Royalties in connection to a product
Job processing charges etc

Indirect expenses are the expenses which cannot be directly identified or linked with the cost centre and are common to various cost centres and products, such as Indirect Material, Indirect labour and indirect expenses. There are also called overheads

The next and important step comes allocation and apportionment of both direct and indirect expenses, and cost captured under production and service cost cente to different products and services. Understanding about allocation and apportionment of expenses assumes great importance particularly in a situation where a company is manufacturing multiple products and have multiple location of manufacturing activities, and also manufacturing products and providing services.

Allocation of expenses

Allocation is a method that is used to assign various costs to their respective cost centers. Allocation can only be used when the entire expense is directly related to one cost centre / department. Cost allocation occurs when overheads and expenses are charged directly to the cost center. For example, the cost of direct labour (such as labour cost per unit produced) is directly allocated to the specific user cost center related to manufacturing of goods. Another example would be, if an air conditioning unit is used separately by one department, the entire cost of using the air conditioner will be allocated to that specific department. There are two conditions that needs to be met in order for an overhead to be allocated.

a. That the expense must have been caused by the cost center and

b. The specific amount of the expense or overhead should be known.

Allocation of overheads/expenses is more specific, and exact cost amounts can be charged directly to each cost center. However costs such as the salary of management personnel who is in charge of overseeing all departments cannot be allocated to one department and, therefore, another method must be used for distributing such costs.

Apportionment of expenses

Apportionment on the other hand is the method to assign the expense arise from a number of different departments. Apportionment of cost occurs when a specific cost cannot be directly identified with one specific cost center. Any cost that does not belong to one department and is shared by a number of departments will be divided among these departments using apportionment. Taking the previous example of the manager's salary, such as expense would have to be apportioned depending on a fair criteria. This could be something like the percentage of the manager's time taken up in each specific department. In other words all the overheads such as Indirect Material, Indirect labour and indirect expenses needs to be apportioned to different products and services adopting a suitable basis based on equitable and fairness of use.The basis adopted should be such by which the expenses being apportioned must be measurable by the basis adopted and there must be proper correlation between the expenses and the basis.

Principles of Apportionment of expenses:

The determination of a suitable basis is of primary importance and the following principles are useful guides to a cost accountant:

(i) Service or Use or Benefit Derived:

If the service rendered by a particular item of expense to different departments can be measured, expenses can be conveniently apportioned on this basis. Thus, the cost of maintenance may be apportioned to different departments on the basis of machine hours or capital value of the machines, rent charges to be distributed according to the floor space occupied by each department.

(ii) Ability to Pay Method:

Under this method, expenses should be distributed in proportion to the sales ability, income or profitability of the departments, territories, basis of products etc. Thus, jobs or products making higher profits take a higher share of the overhead expenses. However this method is inequitable and is not generally advisable to relieve inefficient units at the cost of efficient units.

(iii) Efficiency Method:

Under this method, the apportionment of expenses is made on the basis of production targets. If the target is exceeded, the unit cost reduces indicating a more than average efficiency. If the target is not achieved, the unit cost goes up, disclosing thereby the inefficiency of the department.

(iv) Survey Method:

In certain cases it may not be possible to measure exactly the extent of benefit which the various departments receive as this may vary from period to period, a survey is made of the various factors involved and the share of expenses to be borne by each cost centre is determined.Thus, the salaries of foreman serving two departments can be apportioned after a proper survey which may reveal that 30% of such salary should be apportioned to one department and 70% to the other department. The cost of lighting, when not metered, may similarly be apportioned on a survey of the number and wattage of light points and the hours of use in each cost centre.

Difference between Allocation and Apportionment.

Allocation and apportionment are methods that are used to divide up costs among various cost centers depending on which department or cost center each cost or portions of each cost belong. The major difference between allocation and apportionment methods are that allocation is used when the overhead can be directly related to one department and cost center, and apportionment is used when the overhead arises from a number of departments.

In allocation, the entire amount of the cost will be allocated to one department, and in apportionment proportions of the costs will be divided among their respective cost centers.

Allocation is much easier and simpler to do as the expense will directly be related to one cost center. Apportionment can, however, be quite tricky as the percentage of the cost that needs to be assigned to each department may be difficult to decide.

Summary:

Allocation vs Apportionment

- Allocation and apportionment are methods that are used to divide up costs among various cost centers depending on which department or cost center each cost or portions of each cost belong.
- Cost allocation occurs when overheads and expenses are charged directly to the cost center.
- Cost apportionment occurs when a specific cost cannot be directly identified with one specific cost center.

Group - IV
Paper - 20
Strategic Performance Management and Business Valuation (SPBV)

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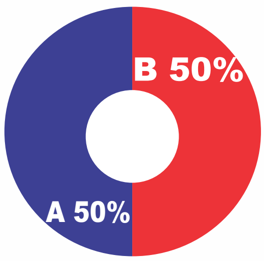
Your Preparation Quick Takes



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

Learning Objectives:

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 examiners 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!

Human Capital and its Valuation Method

The international financial system has observed a fundamental change in the way of human capital and their knowledge sharing capability and in their employment connections. This alteration has been from an emotional employment contract derived from reciprocity to one that is based on constant development and workplace modernism. The management topics presently focus on customer reliability and retention, rising elasticity of employment, identifying and attracting brilliant people and reducing costs.

The origin of the idea of human capital to connect the workforce contribution to the output of organisations is well recognized. In the human resource management text this has emerged as intangibles, as part of intellectual capital. But it is not possible to determine the matter of intangible assets straightforwardly; while they are determined they are called goodwill. If the value of each people's role can be made perceptible as a measure obviously supported with organisational success indicators, in that case this should facilitate additional grounded research on human capital and consequent theory development.

Schultz (1961) acknowledged the human capital as "something akon to property" against the idea of labour force in the standard viewpoint. Frank and Bemanke (2007) described human capital is an micture of factors, for example, education, experience, training, intelligence, energy, work habits, reliability and initiative that influence the value of a worker's marginal product. These two meanings are called 'volume' of human capital.

The flexible and self-generating features of human capital are closely linked to the possibility that the stock of knowledge increases individual's human capital. Again, the transportable and shareable features of human capital mean that the original holder of knowledge can distribute his/her knowledge to others. These two features are called 'range' of human capital. But the link between human capital snd social consciousness is based on a close inter-relationship resulting in socio-political development (Alexander, 1996)

The popular economic theory of human capital fails to clarify existing human capital value and measurement practice however it still gives a basis for the most extensively employed macroeconomic measurement of human capital. Human resource accounting mainly provided a widespread model of the microeconomic value of individuals in a particular organisation. Human resource accounting endeavors to determine human resource in financial phrases, during the application of accounting standards to people in terms of their asset values. But it has some complexities in attempting to account for people as assets. For example, if people are assets, how are people depreciated?

But the resource-based theory of the firm highlights the aggressive capabilities of a firm and its work procedures. Human capital is not segregated from work procedures, rather there is an interactional association between people and their work procedures. As a result the exercise the term 'competency' together with diverse descriptors has resulted in perplexity and a explosion of jargon. Many experts suggests that the resource-based theory of the firm can be adjusted to a knowledge-based vision of the firm to give a basis for intellectual capital appraises.

By and large accounting people consider non-human capital in financial statements but disregards human capital. The conventional accounting system is based on historical cost. Human capital is treated as intrinsic assets or greatest assets of any organization. Human capital comprises knowledge, skills, abilities and experience of employees. Measurement of human capital is significantto find out the employees return on investment, identification of gaps in human capital and bridges the gap.

It is extremely hard to value the knowledge, skills, abilities and experience of employees. There are different models to value human capital. These are:

1. **Acquisition Cost Model**
   This model is called historical cost model. Expenditure relating to recruitment, selection and training and development of employees are treated as assets for human resource accounting. This method is based on accounting principles and policies.

2. **Replacement Cost Model**
   The replacement cost of employees and rebuilding cost of firms are d because it influences human resource asset value in the case of employees and firm.

3. **Opportunity Cost Model**
   This method is engaged to calculate the financial value and allocation of employees to talented action.

4. **Behavioural Model**
   This model draws out the indicators that appreciates or depreciates so as to result in accomplishment of outcome indicators. In other words, it sketchs a association between intervening indicators of human factor with firm performance.

5. **Economic Model**
   The model was developed by Lev and Schwartz. This model assists in valuing employees future role in today's value. This is the most important model for valuation of human capital. Most of the Indian companies follow this model. The valuation of human capital under this model is computed using the following formula:

$E(V_Y) = \sum P_Y(t + I) \sum I(T) / t\text{-}y(I + R)$

$E(V_y)$ = expected value of a Y year old persons human capital.
T = persons retirement age.
Py(t) = probability of person leaving the organization.
I (t) = expected earnings of person in period I
R = discount rate.

6. **Incremental Employee Controbution Model**
   This model is based on the following inputs, effects, links and assumptions. These are:
   (i) The longer an employee is on the job, the more productive they become.
   (ii) System resources, that is, training materials, additional management oversight, etc.
   (iii) Overhead costs are constant over time.
   (iv) Salary remains stable over time.
   (v) The incremental value of an employee over time.

This model is computed using the following formula.
IECt = Pt – (St + Dt + Ot)

Pt = Potential incremental revenue on day t attributable to this employee
St = Salary cost on day t for this employee
Dt = Incremental cost on day t
Ot = Allocated overhead cost on day t
U = Total up-front acquisition cost for this employee

Besides, human capital may be determined by way of output-based approach, cost-based approach and income-based approach. Currently, human capital is determined on the basis of OECD measures.

I expect that these above-mentioned tips come useful for the Final Year Students.

Perceive Yourself with Wisdom

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01.00 Time Tested Wisdom

There are several ways and means of inculcating wisdom nodes from generation to generation. The instances could be drawn from mythological stories, religious preachings, historical tales, or even from one's own anecdotes. The enshrined objective is to carry forward the learnings drawn from the time tested wisdom.

Fools perceive themselves with an inflated supremacy and get stuck to their ego. Wise-men perceive themselves as humble learners and continue inventing forever. It is one's own perception, through time tested wisdom, that can make a whole lot of difference.

Assuming that two fools happen to cross each other from opposite directions on a single lane-way, each one expects the other to step aside and give him the way. In the process, they stick to their own lane and remain standstill without allowing the neither to move forward. In a situation when a fool and a wise man happen to come across, the wise one steps aside, carves out a new lane for him to stead forward, at the same time allowing the fool to continue the onward journey in the existing lane. When two wise men happen to cross each other, each one steps aside and invents two more new lanes for them to go ahead. The existing trail is left free for the commoners to continue the normal course.

The inferred moral is that foolishness halts the progress whereas wisdom multiplies the ways and means of prosperity. Every wise man acts as a teacher for the contemporary folks. It is the wise teachers who guide the current generation as also build the future generations. And that is how humanity can grow in leaps and bounds.

02.00 Self-Perception

Self-Perception is the primary source for our feelings and actions. As such, our actions and reactions are a product of our own perception. Self-perception is the way you think of and understand yourself; It is a means of analyzing your inherent attributes as also the needs. Practically speaking, perception is an integrated sensor. The key elements of perception include life style, likes and dislikes, passion and aspirations.One of the obvious exercisesto move forward the carrier path, therefore,is an analysis of each of the key elements of perception.

02.01 Life Style

Life style is the way in which a person lives. It reveals the standards of life of an individual. A life style typically reflects an individual's attitudes, way of life, values, or world view. Therefore, a lifestyle is a means of forging a sense of self that creates cultural symbols and resonates with personal identity.

Life style is the way in which a person lives.

Life style is a combination of tangible and intangible factors. Tangible factors relate specifically to demographic variables, such as an individual's education, race, religion, income level, consumption pattern, etc., whereas intangible factors concern the psychological aspects of an individual such as personal values, preferences, and outlooks.

Before carving out your onward path, be sure to identify the key characteristics of your ideal lifestyle;analyze your current and future lifestyle; and elicit answers to the three vital questions:

a. Are you happy with your current lifestyle?

b. Do you want to maintain it or change it?
c. Does your current career path allow you the lifestyle you seek?

02.02 Likes & Dislikes

Like is Proposition. Dislike is Opposition. Likes reflect things one is fond of doing whereas dislikes are the things one does not want to do. Likes are reverberated by enthusiastic functioning whereas dislikes throw up repulsive working. Enthusiasm adds to efficiency whereas repulsiveness diminishes the output.

Like is Proposition. Dislike is Opposition.

We all differ in many ways. Out of them all, one major area is on account of our likes and dislikes. The difference exists owing to our family background, company of friends and climatic conditions. Our likes and dislikes, however, give us an insight into our inner-self. They are the sum and substance of our character, temperament and disposition.

An important step is carrying out an unambiguous analysis of your likes and dislikes.Find out: What kinds of activities -- both at work and at play -- do you enjoy? What kind of activities do you avoid? You can make a list of both the types of activities. Now take a close look at your current job and career path in terms of your list of likes and dislikes. Jot down the factual answer to the question: Does your current job have more likes or dislikes?

02.03 Passion

Passion is an intense emotion, a compelling enthusiasm or desire for something. Passion is reflected when extra energy is voluntarily infused into something than is normally warranted. It is much more than simple enthusiasm or excitement.

Passion is an ambition that is crystalized into action with heart, mind, body and soul acting together.Feelingsof satisfaction and fulfillment turn the passion into a hobby. Passion leads to perpetual happiness.

Passion is an intense emotion, a compelling enthusiasm or desire for something.

You can ask friends, family members and others who know you well if they can provide clues as to what they believe are your strengths and abilities, but it is only YOU who can figure out where your passion lies.

Analyze your passion with a pragmatic approach. Reflect on the times and situations in which you feel most passionate, most energetic, most engaged - and see if you can develop a common profile of these situations. Develop a list of your passions. List out: How many of these items keepoccurring while you are at work?

02.04 Aspirations

Aspirations reflect the ambitions. One of the key elements to achieving career success is to clearly define your aspirations.

Aspirations reflect the ambitions.

Begin the analysis of your aspirations by taking time and sitting in a quiet location and answer these questions:

- What were my original childhood career hopes and dreams?
- What are the things that are important to me in life?
- What am I good at in accomplishing at work?
- What are the things I don't enjoy?
- Three to five years from now, what would I like to be doing? What could I envision myself doing? What would I like to have achieved?
- How would I describe my perfect job?

Spend some time thinking about how you define success. What is success to you: wealth, power, control, contentment...

03.00 An Example

Appended hereto is an example titled 'As you perceive Yourself...' that depictsthe self-perception of an illustrative character of a Cost Manger

04.00 Quick Take

Chart out a true perception of yourself with Wisdom; Choose the best-fit career path that is available to you; And Move Forward!

AS You perceive Yourself...

1	Life Style	Leads the life of a semi rich urban Hindu vegetarian; Intends to be richer Lives in an air-conditioned bed room in a two-room rented apartment; Intends to own an air conditioned three room apartment Commutes by a two-wheeler; intends to own a four-wheeler Works six days a week; Intends to have five days a week • Goes for monthly outings; Intends to go for weekly outings
Observation: In order to catch up with my intended lifestyle, the current carrier path needs an upliftment.		
2 (a)	Likes	Appreciation of my work by seniors Ethical and supportive work culture Exposure to new avenues • Incentives and Promotions
2 (b)	Dislikes	Being bossed over Interference from colleagues in my work Working on holidays • Monotonous work
Observation: Theonly limitation in my current job is that of 'Working on holidays'		
3	Passion	Acquiring additional professional knowledge Reading and writing articles on professional matters Training juniors • Developing social contacts
Observation: All the items keep recurring in my present job.		
4	Aspirations	To be regarded as a Cost Manager of par excellence during the next ten years To be a National Council Member of my profession during the next fifteen years • To become a role model professional by the next twenty years
Observation: Success to me implies wealth and contentment.		

Practical ADVICE

ABOUT YOUR STUDIES - FINAL COURSE

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

Appear For Examination

Solve Exercises given in Study Notes

Assess Yourself

Read The Tips

Read Study Notes & MTPs

Submission

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!
We have noted your queries and your requests will definitely be carried out. Further, requesting you to go through the current edition of the bulletin. All the areas will be covered gradually. Expecting your responses further to serve you better as we believe that there is no end of excellence! One of the mails received is acknowledged below.

I am CMA Vijay Pal Singh and I am a regular reader of e-bulletin which is being published every month and uploaded in our Institutes website for students. During my studies I always studied and referred Students Newsletter that helped me a lot to update my self and keep on doing value addition.

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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. Student 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

Message from the Directorate of Studies

Dear Students,

For the smooth and flawless preparation. Directorate of studies have provided meaningful tips which will help you to gain sufficient knowledge about each subject.

"Tips" are given in this E-bulletin by the knowledge experts for the smooth encouragement in you preparation. We are sure that all students 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 beginning 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 answer 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;

Photo Gallery

Release of Guidance Note on Anti Profiteering by Shri P.P.Chaudhary, Hon'ble Minister of State for Law & Justice and Corporate Affairs during Workshop on "Paradigm Shift in Valuation - Opportunities for Professionals" on November 23, 2017 at India Habitat Centre, Lodhi Road, New Delhi.

Shri P. P. Chaudhary, Hon'ble Union Minister of State for Law & Justice and Corporate Affairs was Chief Guest at Workshop on "Paradigm Shift in Valuation – Opportunities for Professionals" on November 23, 2017 at New Delhi.

Shri P. P. Chaudhary, Hon'ble Union Minister of State for Law & Justice and Corporate Affairs was Chief Guest at Workshop on "Paradigm Shift in Valuation – Opportunities for Professionals" on November 23, 2017 at New Delhi.

CMA Sanjay Gupta, President presenting a bouquet to Mr. Robert Thomason, Executive General Manager, CPA Australia on 4th December,2017 at CMA Bhavan, New Delhi

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Behind every successful business decision, there is always a CMA