CMA STUDENTS'
E-BULLETIN
FINAL
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(Syllabys 2016)

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THE INSTITUTE OF OST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

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Behind every successful business decision, there is always a CMA

message from the president

Dear Students,
Greetings,

"Education is what remains after one has forgotten everything he learned in school"-Albert Einstein.
In this connection it is said that the true purpose of 'Education' is to make minds not careers. Now, in this digital era, you can learn easily using the modern technology and distance is not at all a bar. Thus, I am sure that you are deriving the desired knowledge on various subjects covering the syllabus from the monthly publication of this E-bulletin. Never stop learning because life never stops teaching.
I must sincerely acknowledge the tips given by those learned professors who despite their own busy schedules have spared their timing for enhancing your knowledge. It is said that ***"A Teacher takes a Hand, opens a Mind and Touches a Heart*"**.
Success is the sum of small efforts repeated day in and day out. It is you and you alone who can achieve success by keeping your dedication and determination intact. None, other than you can judge you better than yourself.
I believe that education is not received, it is achieved. I must appreciate the effort of the Director of Studies and his team for coming out with these monthly publications of the E-bulletins. I will be very happy with your further views and expectations about these publications.
"The aim of education is the knowledge not of facts but of values"- I firmly believe in that and I am sure that our students must contribute to the development of the Society and will be a true Ambassador of the profession and make their country proud.

Please look into the attached photographs of the successful students and be ready to participate in the forthcoming National Students Convocation in the years to come!

Enjoy your reading,

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

Be a CMA, be a Proud Indian

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message from the chairman

"You are the greatest book that ever was or ever will be, the infinite depository of all that is. Until the inner teacher opens, all outside teaching is in vain"- Said by Swami Vivekananda.

I am very hopeful about the profession and what I feel that with your right knowledge you can make yourself happy as well as make the Country proud. In the National Students Convocation, 2017, many students' have received their certificates and awards and I have seen the right courage and needed zeal in them. They must be the torch bearer of the profession. All of you are having requisite knowledge and skill and only thing needed is to channelize them towards the right direction.

"When an idea exclusively occupies the mind, it is transformed into an actual physical or mental state", have faith on our predecessors and try to achieve to the best of your ability. Time is the most precious thing in the world so try to utilise it the most and in an efficient and planned way.

To succeed in your examination you need to read the publication released by the Institute very carefully and to derive the maximum benefit out of it. Mock Test Papers / MTPs are prepared by the Directorate of Studies and uploaded under student's section in the site of the Institute. Please see the uploaded questions papers and start solving the questions. The correct answers will be uploaded shortly and meantime if you start solving you may gauge your performance and your preparation for appearing the examination will be in the right direction.

I wish you all a very bright future,

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 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.

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Group - III

PAPER : 13

CORPORATE LAWS & COMPLIANCE (CLC)

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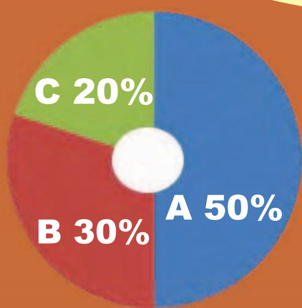
Your Preparation Quick Takes

Syllabus Structure

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



Behind every successful business decision, there is always a CMA

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.

While writing the answers stick to the following:

1. Write to the point using clear & appropriate language
2. Write legibly & try to use a moderately good hand writing
3. Write in small paragraphs and try to underline important points & headings or make points.
4. Read through the question paper, understand the questions and start with the questions for which the appropriate answers are known to you
5. Do not write a very lengthy answer; try to confine within a maximum one pages for a 05 mark question.

LAW OF INSURANCE

- THERE MAY BE ADVERSE CONSEQUENCE OF HAPPENING OF ANY EVENT WHICH MAY OR MAY NOT HAPPEN
- HAPPENING OF SUCH EVENT WOULD RESULT TO SUBSTANTANTIAL LOSS TO LIFE OR PROPERTY
- INSURANCLE IS THE MECHANISM BY WHICH A MONETARY COMPENSATION SHALL BE PAYABLE TO REDUCE/ SUBSTITUTE SUCH LOSS
- PERSON WHO MAY INCUR THE LOSS IS CALLED INSURED, THE PERSON WHO PAYS THE COMPENSATION IS CALLED THE INSURER

PROVISIONS RELATING TO INSURANCE BUSINESS

REGISTRATION

- THE LAW REQUIRES THE REGULATORY AUTHORITY TO REGISTER INSURERS AND SUSPEND / RENEW THEIR REGISTRATION. THIS REGISTRATION IS TO BE RENEWED ANUALLY.

INVESTMENT OF FUNDS

- THE LAW STATES THAT THE INSURERS SHALL NOT INVEST THE FUND OF THE POLICY HOLDERS OUTSIDE INDIA EITHER DIRECTLY OR INDIRECTLY. THE REGISTERED INSURERS TO INVEST THEIR ASSET ONLY IN THOSE INVESTMENTS AS APPROVED UNDER THE ACT. RETURNS ARE TO BE SUBMITTED PERIODICALLY IN PRESCRIBED FORM TO IRDA. 75% OF THE INVESTIBLE SURPLUS SHOULD BE INVESTED IN THE DEVELOPMENT OF RURAL INFRASTRUCTURE.

AMALGAMATION AND TRANSFERS

- NO INSURER TO TRANSFER HIS BUSINESS TO ANOTHER PROMOTER OR ANOTHER COMPANY WITHOUT THE EXPRESS PERMISSION OF IRA. IF AN INSURER PLANS TO TRANSFER OR AMALGAMATE THEN HE WILL HAVE TO FOLLOW A FORMULA CHARTED OUT IN THE LAW. IN CASE AN INSURER WANTS TO TRANSFER HIS HOLDING OR AMALGAMATE HIS LIFE INSURANCE BUSINESS WITH ANY OTHER INSURANCE COMPANY THEN HE WILL HAVE TO FOLLOW A RIGID CODE SET OUT BY IRDA.

CAPITAL ADEQUACY

- THE MINIMUM PAID UP EQITY CAPITAL OF THE INSURER HAS TO BE RS. 100 CRORES FOR LIFE INSURANCE OR GENERL INSURANCE AND RS. 200 CRORES FOR RE – INSURANCE BUSINESS.

DEPOSIT WITH RBI

- THE REGISTERED INSURER WILLHAVE TO DEPOSIT WITH RESERVE BANK OF INDIA, IN CASH OR APPROVED SECURITY, A SUM EQUIVALENT TO 1% (LIFE INSURANCE) OR 3% (GENERAL INSURANCE), OF THE TOTAL GROSS PREMIUM IN ANY FINANCIAL YEAR COMMENCING AFTER 31^{ST} MARCH, 2000 SUBJECT TO A MAXIMUM DEPOSIT OF RS. 10 CRORES. FOR RE – INSURANCE BUSINESS, THE DEPOSIT AMOUNT IS FIXED AT RS. 20 CRORES.

MAINTENANCE OF ACCOUNTS

- THE REGISTERED INSURER TO PREPARE AND KEEP SEPARATE ACCOUNTS OF RECEIPTS AND PAYMENTS REVENUE ACCOUNT, SHAREHOLDER'S FUNDS, BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AT THE EXPIRATION OF EACH FINANCIAL YEAR IN RESPECT OF EACH CLASS OF INSURANCE BUSINESS.

MINIMUM BUSINESS

- THE ACT REQUIRES EVERY INSURERE TO DO A MINIMUM INSURANCE BUSINESS IN THE RURAL OR SOCIAL SECTOR, AS MAY BE SPECIFIED BY THE AUTHORITY.

INVESTIGATION / INSPECTION

- THE AUTHORITY MAY ORDER IN WRITING AN INVESTIGATION INTO THE AFFAIRS ON ANY INSURER BY AN INVESTIGATING AUTHORITY SPECIFIED IN THE ORDER.

❑ **SOLVENCY MARGIN**

- THE PROVISIONS OF THE ACT PROVIDES AS TO HOW THE ASSETS AND LIABILITIES HAVE TO BE DETERMINED AND THE EXTENT TO WHICH THE ASSETS ARE REQUIRED TO EXCEED THE LIABILITIES. THE ACT ALSO HAS MADE PROVISION AS TO HOW THE ACCOUNS SHALL BE MAINTAINED AND THE RETURNS TO BE RENDERED TO THE AUTHORITY.

❑ **PAYMENT OF PREMIUM BEFORE ASSUMPTION OF RISK**

- INSURERS CAN ASSUME A RISK ONLY AFTER RECEIVING THE PREMIUM OR A GUARANTEE THAT THE PREMIUM SHALL BE PAID WITHIN THE PRESCRIBED TIME, OR, A DEPOSIT OF SUCH AMOUNT AS MAY BE PRESCRIBED IS TO BE MADE IN ADVANCE. A RISK MAY BE ASSUMED NOT EARLIER THAN THE DATE ON WHICH THE PREMIUM HAS BEEN PAID IN CASH OR CHERUB. IF PREMIUM IS TENDERED BY POSTAL MONEY ORDER THEN RISK TO BE ASSUMED ON THE DATE WHEN THE MONEY ORDER IS BOOKED.

ESTABLISHMENT OF REGULATORY AND DEVELOPMENT AUTHORITY

- REGULATORY AND DEVELOPMENT AUTHORITY IS TO BE ESTABLISHED TO PROTECT THE INTEREST OF HOLDERS OF INSURANCE POLICY, TO REGULAE, PROMOTE AND ENSURE ORDERLY GROWTH OF INSURANCE INDUSTRYAND FOR MATTERS CONNECTED THEREWITH AND INCIDENTAL THERETO.

- UNDER THE ACT IRDA HAS BEEN ESTABLISHED AS A BODY CORPORATE ;TO EFFECTUATE THE OBJECTS OF THE ACT AS SET OUT IN THE PREAMBLE. THIS AUTHORITY HAS THE POWER TO SPECIFY THE CONDITIONS FOR REGISTRATION OF INSURERS AND THE QUALIFICATIONS, TRAINING AND CODE OF CONDUCT FOR THE INTERMEDIARIES / AGENTS.

❑ **CONSTITUTION OF IRDA**

- THE IRDA TO CONSTITUE OF THE FOLLOWING MEMBERS:
  - A CHAIRPERSON
  - NOT MORE THAN 5 WHOLE TIME MEMBERS
  - NOT MORE THAN 4 PART TIME MEMBERS TO BE APPOINTED BY CENTRAL GOVERNMENT

- THE CHAIRPERSON, MEMBERS, OFFIOCERS AND OTHER EMPLOYEES OF THE AUTHORITY SHALL BE PUBLIC SERVANTS UNDER THE INDIAN PENAL CODE.

❑ **FUNCTIONS OF IRDA**

THE FUNCTIONS OF IRDA ARE THE FOLLOWING:

- TO ISSUE CERTIFICATE OF REGISTRATION, RENEW, WITHDRAW, SUSPEND OR CANCEL SUCH REGISTRATION.
- TO PROTECT THE INTERESTS OF THE POLICYHOLDERS / INSURED IN THE MATTER OF INSURANCE CONTRACT WITH THE INSURANCE COMPANY.
- TO PROMOTE EFICIENCY IN THE CONDUCT OF INSURANCE BUSINESS.
- TO CONTROL AND REGULATE THE RATES, TERMS AND CONDITIONS TO BE OFFERED BY INSURER.
- TO SPECIFY THE FORM AND MANNER FOR MAINTENANCE OF BOOKS OF ACCOUNTS AND THE STATEMENT OF ACCOUNTS.
- TO REGULATE INVESTMENT OF FUNDS BY THE INSURANCE COMPANIES.
- TO SPECIFY REQUISITE QUALIFICATION, CODE OF CONDUCT AND TRAINING FOR INSURANCE INTERMEDIARIES AND AGENTS.
- TO SPECIFY CODE OF CONDUCT FOR SURVEYORS / LOSS ASSESSORS.
- TO SPECIFY THE PERCENTAGE OF LIFE AND GENERAL INSURANCE BUSINESS TO BE UNDERTAKEN IN TNE RURAK OR SOCIAL SECTOR.

❑ **POWERS OF IRDA**

- TO INSPECT DOCUMENTS, APPOINT ADDITIONAL DIRECTORS, ISSUE DIRECTIONS, TAKE OVER THE MANAGEMENT OF THE INSURER THROUGH THE APPOINTMENT OF AN ADMINISTRATOR TO BE MADE BY THE CENTRAL GOVERNMENT.
- TO SETTLE DISPUTES AMONGST THE INTERMEDIARIES AND THE INSURERS.
- POWER TO TAKE CARE OF POLICYHOLDER'S INTEREST THROUGH PROHIBITION OF POLICIES BEING CALLED INTO QUESTION AFTER 2 YEARS, PROVIDING FOR NOMINATIONS AND ASSIGNMENTS.

PROVISIONS RELATING TO AGENTS / INTERMEDIARIES AND THEIR LICENSING

❑ **CHIEF AGENT**

- HE IS A PERSON WHO PERFORMS THE FOLLOWING FUNCTIONS IN LIEU OF COMMISSION:

1. PERFORMS ANY ADMINISTRATIVE FUNCTION FOR THE INSURER
2. PROCURES LIFE INSURANCE BUSINESS FOR THE INSURER BY EMPLOYING INSURANCE AGENTS ON BEHALF OF THE INSURER.

- A CHIEF AGENT IS NOT A SALARIED EMPLOYEE OF THE INSURER.

❑ **SPECIAL AGENT**

- SPECIAL AGENT IS SAME AS THAT OF A CHIEF AGENT BUT DOES NOT PERFORM ADMINISTRATIVE FUNCTIONS LIKE CHIEF AGENT AND THEREFORE HE ONLY PROCURES BUSINESS THROUGH AGENTS.

❑ INSURANCE AGENTS / INTERMEDIARIES ARE ALSO REQUIRED TO GET AN OPERATING LICENSE FROM IRDA AND THIS IS REQUIRED TO BE RENEWED EVERY 3 YEARS.

❑ THEREFORE, NO PERSON TO WORK AS AN INSURANCE AGENT UNLESS HE HAS OBTAINED A LICENSE FROM THE AUTHORITY.

❑ LICENSE WILL NOT BE GRANTED TO THE MINORS AND ANY PERSON SUFFERING FROM ANY OF THE FOLLOWING DISQUALIFICATIONS:

1. UNSOUNDNESS OF THE MIND
2. CONVICTION GENERALLY FOR CRIMINAL MISAPPROPRIATION OR BRACH OF TRUST OR CHEATING OR FORGERY OR ABATEMENT OR ATTEMPT TO COMMIT ANY SUCH OFFENCE, AND
3. GUILTY FINDING OR CONVICTION SPECIFICALLY FOR ANY FRAUD, DISHONESTY OR MISREPRESENTATION AGAINST ANY INSURED OR INSURER.

- **COLLECTION OF PREMIUM BY AGENTS**

  - WHEN PREMIUM IS COLLECTED BY ANY AGENT THEN HE MUST DEPOSIT THE SAME WITH THE INSURER OR POST THE SAME TO THE INSURER IN FULL WITHOUT DEDUCTION OF HIS COMMISSION WITHION 24 HOURS OF THE COLLECTION EXCLUDING BANK AND POSTAL HOLIDAYS.
  - IN CASE OF REFUND, THE AMOUNT SHALL BE PAID BY THE INSURER DIRECTLY TO THE INSURED BY CROSSED OR ORDER CHERUB OR BY POSTAL MONEY ORDER AND A PROPER RECEIPT SHALL BE OBTAINED. REFUND'S SHALL NOT BE MADE TO THE AGENT'S ACCOUNT.

- **LICENSING OF SURVEYORS AND LOSS ASSESSORS**

  - INSURANCE CLAIMS INVOLVING LOSS EQUAL TO OR EXCEEDING RS. 20,000 CANNOT BE SETTLED BY THE INSURER UNLESS HE HAS OBTAINED A REPORT FROM THE LICENSED SURVEYOR.
  - A PERSON CAN ACT AS SURVEYOR ONLY WHEN HE HAS OBTAINED A LICENSE FROM THE AUTHORITY.
  - FOR OBTAINING SUCH LICENSE THE APPLICANT WILL HAVE TO SATISFY THE FOLLOWING:

- HE HAS BEEN IN PRACTICE AS A SURVEYOR OR LOSS ASSESSOR ON THE DATE OF COMENCEMENT OF IRDA ACT.
- HE POSSESSES ANY OF THE QUALIFICATIONS AS MAY BE SPECIFIED IN SECTION 64UM OF THE INSURANCE ACT OR SUCH OTHER TECHNICAL QUALIFICATION AS MAY BE SPECIFIED BY THE IRDA BY REGULATION, AND
- HE DOES NOT SUFFER FROM ANY OF THE DISQUALIFICATIONS AS SPECIFIED ABOVE.
- IF THE APPLICANT IS A COMPANY OR A FIRM THEN THE ABOVE REQUIREMENTS APPLY TO ALL THE DIRECTORS OR PARTNERS, AS THE CASE MAY BE.

- EVERY SURVEYOR OR LOSS ASSESSOR TO COMPLY WITH THE CODE OF CONDUCT AS SPECIFIED IN HE REGULATIONS MADE BY THE AUTHORITY.

- **COMMISSION TO THE INTERMEDIARIES**

- COMMISSION TO AN INSURANCE AGENT NOT TO EXCEED 15% OF THE PREMIUM PAYABLE UNDER FIRE, MARINE OR MISCELLANEOUS INSURANCE POLICY.
- REBATES ARE PROHIBITED.
- IN HIGH VALUE BUSINESS, THE AGENT WILL NOT GET ANYTHING MORE THAN THE PRESCRIBED COMMISSION. THE CREDIT, IF ANY, WILL GO TO THE DEVELOPMENT OFFICER OR TO THE BRANCH OFFICER AS THE CASE MAY BE.

Group - III

PAPER : 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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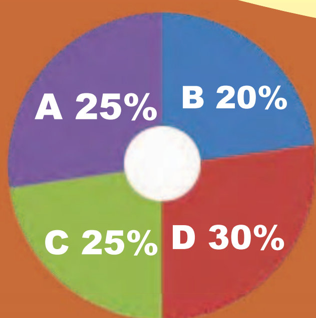
Your Preparation Quick Takes

Syllabus Structure

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



Behind every successful business decision, there is always a CMA

Learning objectives:

After studying this section, you will be able to:

- Apply sensitivity analysis technique for assessing risk in capital budgeting decision
- Apply scenario analysis technique for assessing risk in capital budgeting decision

To deal with the above mentioned objectives let us consider two numerical illustrations for assessing risk in capital budgeting decision.

Problem 1

The initial investment outlay for a capital investment project consists of Rs 100 lakhs for Plant and Machinery and Rs 40 lakhs for working capital. Other details are summarized below:

Sales value - 1 lakh units of output per year for years 1 to 5

Selling price - Rs 120 per unit of output

Variable cost - Rs 60 per unit of output

Fixed overheads (excluding depreciation) - Rs 15 lakhs per year for years 1 to 5

Rate of Deprecation on Plant and Machinery - 25% on WDV method

Salvage value of Plant and Machinery - Equal to the WDV at the end of year 5

Applicable Tax Rate - 40%

Time horizon - 5 years

Cost of Capital - 12%

Required:

(a) Indicate the financial viability of the project by calculating the Net Present Value

(b) Carry out the sensitivity analysis under each of the following conditions:

I. Decrease in selling price by 5%

II. Increase in variable cost by 10%

III. Increase in cost of plant and machinery by 10%

Solution

Working notes

(a) (i) Initial investment (I_o)= Rs(100+40) lakhs = Rs 140 lakhs

(ii) Statement showing the depreciation schedule (Rs lakhs)

	Year1	Year2	Year 3	Year 4	Year 5
Opening Plant and Machinery	100	75.00	56.25	42.19	31.64
Less: Depreciation	25	18.75	14.06	10.55	7.91
Closing Plant and Machinery	75	56.25	42.19	31.64	23.73

(iii) Statement showing the profit before depreciation and tax per year (PBDT)

(Rs in lakhs)

Total Contribution per year [Rs (120-60) x 1 lakh units]	=	60
Less: Fixed Overheads, other than depreciation year		15
Profit before Depreciation and Tax (PBDT)		45

(iv) Table showing the net cash flows (Rs. In lakhs)

Year	PBDT	Less: Depreciation	PBT	Less: Tax @ 40%	PAT	Add: Depreciation	Add: Salvage Value	Add: Decrease in working capital	Net cash inflows
1	45	25	20	8	12	25	-	-	37
2	45	18.75	26.25	10.5	15.75	18.75	-	-	34.50
3	45	14.06	30.94	12.38	18.56	14.06	-	-	32.62
4	45	10.55	34.45	13.78	20.67	10.55	-	-	31.22
5	45	7.91	37.09	14.84	22.25	7.91	23.73	40	93.89

NPV = $37/(1+0.12)^1 + 34.50/(1+0.12)^2 + 32.62/(1+0.12)^3 + 31.22/(1+0.12)^4 + 93.89/(1+0.12)^5 - 140$

= (37x 0.893) + (34.50 x 0.797) + (32.62 x 0.712) + (31.22 x 0.636) + (93.89 x 0.567) – 140

= Rs. (156.87 – 140) lakhs

= Rs. 16.87 lakhs

The project is financially viable as NPV is positive at 12% cost of capital.

(b) Sensitivity Analysis:

(i) **5% decline in selling price**

The above change leads to [(0.05 x Rs 120) x (1-0.40)]

Rs 3.6 lakhs decline in post-tax net cash inflows per year for 5 years.

Therefore, Decline in NPV= Rs 3.6 lakhs x P.V.I.F of Annuity @12% for 5 years

= Rs 3.6 x 3.605

= Rs 12.98 lakhs

Percentage decline in NPV compared to the base case NPV of Rs 16.87 lakhs = (12.98/16.87) x 100=76.94%

(ii) **Increase in variable cost by 10%**

The above change results in a decline in post-tax net cash inflow to the extent of Rs 3.6 lakhs [= {(Rs 60 x 1,00, 000) x 10%} x (1-0.40)] per year for 5 years.

Therefore, decline in NPV=Rs 3.6 lakhs x P.V.I.F of annuity @12% for 5 years

=Rs 3.6 x 3.605

=Rs 12.98 lakhs

Percentage decrease in NPV as compared to the base case NPV of 16.87 lakhs = (12.98/16.87) x 100=76.94%

(iii) **Increase in cost of Plant and Machinery by 10%**

Due to increase in the cost of Plant and Machinery by 10%, the initial investment will be higher by 10 lakhs. The net cash inflow will also be higher due to the tax benefit on depreciation of the increase in the cost of Plant and Machinery. The present value is shown below:

Year	Opening Value	Less: Depreciation@ 25%	Closing Value	Tax benefit on depreciation	Increase in Salvage Value	Increase in net cash flows	PVIF @ 12%	PV
1	10	7.5	7.5	1.00 [=2.5 x 0.40]	-	1.00	.893	0.89
2	7.5	1.88	5.62	0.75	-	0.75	.797	0.60
3	5.62	1.41	4.21	0.56	-	0.56	.712	0.40
4	4.21	1.05	3.16	0.42	-	0.42	.636	0.27
5	3.16	0.79	2.37	0.32	2.37	2.69	.567	1.53
Total PV of additional inflows =								3.69

Therefore, net decline in NPV =Rs. (10 – 3.69) lakhs = Rs. 6.31 lakhs.

Percentage decline in NPV = (6.31/16.87) x 100 = 37.40%

Problem 2

D. Co. Ltd considers three different scenarios, denoted as optimistic, most likely and pessimistic. Each of the three scenarios with changes in these variables of demand, selling price and variable cost from the projections made earlier is shown in the following table:

Scenario description

	Optimistic	Most likely	Pessimistic
Demand level (NOs.)	+10%	3000	-10%
Selling Price (Rs./unit)	+5%	3.20	-10%
Variable Cost (Rs.)	+10%	5400	+10%

Compute the expected NPV, Standard Deviation of NPV and coefficient of variation after taking into consideration the following information

Scenario	Optimistic	Most likely	Pessimistic
Initial investment(Rs.)	8000	8000	8000
Life of the project(Yrs.)	10	10	10
Discount Rate	15%	15%	15%
Fixed Cost	1200	1200	1200
Tax	40%	40%	40%
Probability	30%	50%	20%

Solution

Scenario Analysis

Particulars	Optimistic Scenario	Most likely Scenario	Pessimistic Scenario
Demand Level (Nos.)	3300	3000	2700
Selling price (Rs./unit)	3.36	3.20	2.88
Revenue (Nos. x Selling Price p.u.) (Rs.)	11088	9600	7776
Less: Variable cost (Rs)	5940	5400	5940
Contribution	5148	4200	1836
Less: Fixed Cost	1200	1200	1200
PBIT	3948	3000	636
Less: Interest	-		-
PBT	3948	3000	636
Less: Tax @ 40%	1579	1200	254
PAT/Cash inflows	2369	1800	382
PV of cash inflows (cash inflows x PVIF of annuity@15% for 10 years i.e.; 5.019)	11890	9034	1917
Net Present Value	3890	1034	(6083)

Expected NPV = $\sum P_i \times NPV_i$ = (0.30 x 3890) + (0.50 x 1034) + (0.20 x (-6083))

= 1684 – 1216 = Rs. 468.

Standard Deviation of NPV [σ_{NPV}] = $\sqrt{\sum_{i=1}^{3} P_i[NPV - E(NPV)]^2}$

= $\sqrt{[0.30 \times (3890 - 468)^2 + 0.50 \times (1034-468)^2 + 0.20 \times (-6083-468)^2]}$

= $\sqrt{[3513025 + 160178 + 8583120]}$ = 3500.

Coefficient of variation = E(NPV)/σ_{NPV}

= 468/3500 = 0.13.

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Group - III

PAPER : 15

STRATEGIC COST MANAGEMENT - DECISION MAKING (SCMD)

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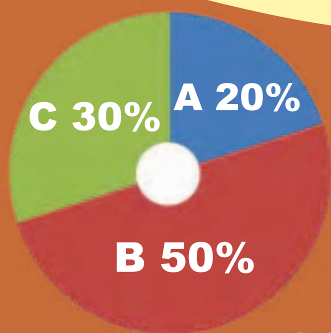
Your Preparation Quick Takes

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%**



Behind every successful business decision, there is always a CMA

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?

01.00 Introduction

The sixth phase of evolution of the Cost Accounting is the modern phase which we have been experiencing in the 21st century wherein Full Cost approach is gaining edge. It is a Satellite phase that is destined to extend the sphere of cost accounting to new origins. Socio Economic Cost Benefit analysis (SCCBA) is being carried out widely. The advent of Triple Bottom Line (TBL) has opened up new vistas.

02.00 Socio Economic Cost Benefit Analysis

Socio Economic Cost Benefit analysis (SCCBA) is the predominant tool used in welfare economics in order to assess whether an intervention – be it a project or policy – should be undertaken or not. It is an extension of Economic Cost Benefit Analysis, adjusted to take into account the full spectrum of costs and benefits, including social and environmental effects, borne by society as a whole.
Traditional Cost Benefit Analysis has tended to emphasise only the economic costs and benefits. Social and Environmental Costs and Benefits have often been treated as secondary considerations because projects are often driven by the economic imperative to generate jobs and growth. Gradually Socio Economic Cost Benefit analysis (SCCBA) has been evolved to cover the entire spectrum of individuals and communities.

The process of Socio Economic Cost Benefit Analysis may comprise of eight vital steps.

1. Identification of the Project
2. Technical and Demand Analyses
3. Financial Effects
4. Fiscal Effects
5. Externalities
6. Opportunity Costs
7. Economic Return on Investment (EROI)
8. Social Return on Investment (SROI)

Items 1 to 3 are part of the traditional Financial Analysis; Items 4 to 7 go beyond the private interests and look at the Economic Analysis; whereas item 8 moves forward and addresses the Social Concerns. Fiscal Effects refer to Fiscal Transfers and consist of the Fiscal Income such as Rates, Taxes and Other Duties that may generated by the project as also the Fiscal Costs such as Subsidies and Incentives that may have to be extended to the project. Externalities refer to calculation of External Effects of the Project. Opportunity Costs refer to the Opportunity Costs relating to both the Inputs and Outputs wherein shadow prices are adopted if market prices are not available. EROI refers to computation of the Economic Net Present Value (ENPV) and the Economic Internal Rate of Return (EIRR). SROI recognises that economic, environmental and social outcomes are all critical factors in achieving good lives and well-being and should be included in a 'Triple Bottom Line' approach.

In general, SECBA is used in the ex-ante evaluation for the selection of an investment project. However, it can also be used ex-post to measure the economic impact of an intervention. It is normally used for major infrastructure projects, especially in the transport and environment sectors, where it is easier to quantify and monetise the non-market effects. SECBA is also used to evaluate projects in the health, education and cultural heritage sectors.

In the context of Socio Economics, the term "Cost" is assumed to include "Pure Private Costs" that are enterprise centric and also the "Pubic Costs" that are community centric. Here, the concept of "Social Cost" is broadened to cover 'apparent' internalities which are private in nature plus the 'hidden' externalities that impact the community.In the process of decision making, the individual firm generally considers only that portion of the social costs, referred above as 'Pure Private Costs', that are born by it and tends to ignore the 'Public Costs' that are born by the external stakeholders.

There are three categories of these so-called 'externalities':

a. knock-on impacts which are tangible and have a market value, e.g. the number of jobs that are indirectly created or destroyed;
b. knock-on impacts which are tangible but do not necessarily have a market value *per se,* e.g. environmental pollution; and
c. knock on impacts which are neither tangible nor have a market value, e.g. social well being.

Externalities could be positive or negative. For example, when a supplier of educational services indirectly benefits society as a whole but only receives payment for the direct benefit received by the recipient of the education: the benefit to society of an educated populace is a positive externality.If there is a positive externality, then one will have higher social benefits than private benefits. Environmental pollution is an example of a social cost that is seldom borne completely by the polluter, thereby creating a negative externality. If there is a negative externality, then social costs will be greater than private costs.

Be it a positive externality or a negative externality, the implication is that of inefficient allocation of resources. In either case, economists consider this as a market failure for the reason that in thecase of negative externalities, private agents will engagein too much of the activity; in the case of positive externalities,they will engage in too little. As a result, the marginal rateof transformation in production will not be equal to themarginal rate of substitution in consumption due to theeffect of the externality and as a result Pareto optimalitywill not occurthereby defeating the very objective of the welfare economics. Such a situation eventually leads to Government Interventions to facilitate better allocation and utilization of the resources.

In its initial stages, SECBA was originally developed as a technique of Social Cost Benefit Analysis in the 1960s in response to continuing demands on the State to build basic infrastructure. The technique was prompted by growing confidence in a mixed economy with associated widespread market prices, innovations in electronic data processing capacity, and shortage of investable savings and international purchasing power. In the late 1960s, Little & Mirrlees and UNIDO developed Social Cost Benefit Analysis techniques that gave answers to a number of technical questions in pricing costs and benefits. This gave economists the apparent power to make a comparative appraisal of any developmental activities against an international standard in terms of their net benefits to the global human condition.

"Socio Economic Cost Benefit Analysis" is that vital tool that can evaluate the Social Costs vis-à-vis the Social Benefits whereby efficient allocation of resources is enabled towards achieving maximum welfare of the Stakeholders. The analysis can be applied to both Public & Private Investments and Government Interventions could be poisoned as a preventive mechanism rather than being curative.The core fact is that SEBCA involves establishing the value of an activity from the public perspective; at its most ambitious this is a global perspective.

03.00 Triple Bottom Line

The advent of Triple Bottom Line (TBL), all over the world, has brought forth new dimensions to the science of Cost Accounting. The concept of cost is broadened to cover 'apparent' internalities as also 'hidden' externalities. The scope of cost is widened to include Operating Costs, Back-End Costs, Front-End Costs and Contingent Costs. The science is, now, that of "Full Cost Accounting" (FCA) that pervades the entire gambit of TBL comprising Profits, People and Planet. Full Cost Accounting aims to price goods and services to reflect the true environmental costs of their production, use, recycling, and disposal.

In this context, the definition of Cost refers to Cash Value as also the Non-Cash Value of the Resource consumed. It does include both explicit and implicit costs relevant for the product and the project. It is an amalgamation of Private Costs and the Social Costs based on the 'Life Cycle Analysis' (LCA). The LCA process, also in its developmental stages, systematically identifies and describes each step of a product's life, from raw materials to final disposal.

In traditional business accounting and common usage, the"Bottom Line" refers to either the "Profit" or "Loss", whichis usually recorded at the bottom of the Profit & Loss account. Over the last five and a half decades, environmentalistsand social advocates have struggledto bring a broader definition of bottom line into publicconsciousness by introducing twomore "Bottom Lines", viz. "People" and "Planet" reflecting social and environmental concerns.As a consequence, The Triple Bottom Line (TBL) accounting expands the traditional reporting framework to take into account social and environmental performance in addition to financial performance.

The TBL framework enables organizations to adopt a long-term perspective and thus evaluate the futuristic impact of the current decisions.The concept of TBL highlights that a company's responsibility lies towards the stakeholders rather than shareholders. In this case, "stakeholders" refers to anyone who is influenced,either directly or indirectly, by the actions of the firm. The TBL may be perceived as a combination of Economic Value Added, Social Value Added and Environmental Value Added.

The term "People" refers and pinpoints fair and beneficial business practices concerning the labour, the community and the region in which an entity conducts its business. A TBL company conceives a reciprocal social structure in which the wellbeing of corporate, labour and other stakeholder interests are interdependent.

The term "Planet" refers to sustainable environmental practices. A TBL company endeavors to maintain the natural order as much as possible or at the least not to do any harm and minimise environmental impact. "Cradle to grave" is uppermost in the thoughts of TBL manufacturing entities, which typically conduct a life cycle assessment of products to determine what the true environmental cost is from the growth and harvesting of raw materials to manufacture, to distribution, and to eventual disposal by the end user. Generally, sustainability reporting metrics are better quantified and standardized for environmental issues than for social ones. The eco bottom line is akin to the concept of Eco-capitalism.

A large number of standards now exist inthis area including Ecological Footprint, eco-labels, andthe United Nations International Council for Local EnvironmentalInitiatives approach usingthe ecoBudget metric. The International Organization forStandardization (ISO) has several accredited standardsuseful in FCA or TCA including for greenhouse gases,the ISO 26000 series for corporate social responsibilitycoming in 2010, and the ISO 19011 standard for auditsincluding all these.

The realization concerning the TBL has become dominant in avenues that are leading to negative externalities such as generation of thermal power, solid waste management, etc. Each stage in the life cycle of coal—extraction, transport, processing, and combustion—generates a waste stream and carries multiple hazards for health and the environment. These costs are external to the coal industry and are thus often considered "externalities." It is estimated that that the life cycle effects of coal and the waste stream generated are costing the U.S. public a third to over one-half of a trillion dollars annually.Many of these so-called externalities are, moreover, cumulative. Accounting for the damages conservatively doubles to triples the price of electricity from coal per kWh generated, making wind, solar, and other forms of non-fossil fuel power generation, along with investments in efficiency and electricity conservation methods, economically competitive.And so also the waste generated by the Municipal Corporations across the world.

There is an argument that the Earth's carrying capacity is at risk, and that in order to avoid catastrophic breakdown of climate or ecosystems, there is an immence need for comprehensive reform of global financial institutions similar in scale to what was undertaken at Bretton Woods in 1944. Marilyn Waring has been a major proponent of this reform.

May it be called Triple Bottom Line; May it be called True Cost Accounting; May it be called Sustainability Accounting; It is the beginning for Full Cost Accounting; And, there is a long way to go.

Group - III

PAPER : 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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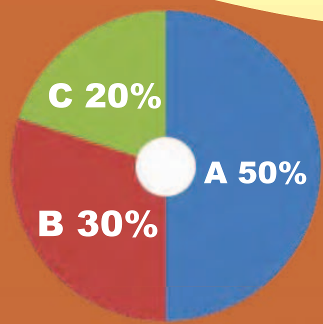
Your Preparation Quick Takes

Syllabus Structure

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



Behind every successful business decision, there is always a CMA

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.

Agricultural Income

Agricultural Income is exempt from Income Tax by virtue of Section 10(1) of the Income Tax Act, 1961. However net agricultural income is added to the total non agricultural income computed as per Income Tax Act, for the purpose of determining the tax on non agricultural income of an Individual, HUF, AOP/BOI, or an artificial judicial person, although the agricultural income will remain fully exempt.

Provision of the Act on Agricultural Income [Section 2(1A)]: Agricultural Income includes the following;

(i) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes

(ii) Any income derived from such land by way of agricultural operations including the processing of agricultural produce, raised or received as rent in kind so as to render it fit for the market or sale of such produce

(iii) Any income derived from any building, farmhouse or land utilised in connection with cultivation of agricultural produce.

The above three types of income shall be treated as Agricultural Income, when the enumerated conditions are satisfied

(i) Income should be derived from Land

(ii) Land should be situated in India

(iii) Land should be used for agricultural purpose

 (a) Basic Operations

 (b) Subsequent Operations

Key Note: Income earned from saplings or seedlings grown in a nursery shall be **deemed to be agricultural income.**

Agricultural Income: Agricultural Income means;

- Rent from Agricultural Land in India.
- Income from Agricultural operations.
- Income from farm house.
- Income from saplings or seedlings in nursery.
- If firm is engaged in Agricultural operations then salary and interest earned by partner is also Agricultural Income.

Not an Agricultural Income:

- Income from natural growth of trees
- Rent from Agricultural Land outside India
- Profit on Sale of Agricultural land in village neither Capital Gain nor Agricultural Income.
- If Company is engaged in Agricultural operations then Director Remuneration and Dividends of share holders are not an Agricultural Income.

List of events whether Agricultural Income (AGI) or Not:

Sl.No.	Events	Agricultural Income(AGI) Or Not	Relevant Case laws
1.	Natural Growth of trees	Not AGI	Mustafa Ali Khan v CIT (1948) 16 ITR 330 (PC). It was held that there is no Agricultural process involved.
2.	Income from salt produced by flooding the land with sea water and then extracting salt there from.	Not AGI	Linga Reddi v CIT 2 ITC 363 (Mad)

3.	Income from lease of land for grazing of cattle required for agricultural purpose.	AGI	CIT v Rai Shamsherjang Bahadur (RB) (1953) 24 ITR 1 (All). Lease rent received for grazing of cattle required for agricultural pursuits, is Agricultural Income.
4.	Compensation received from an insurance company for damage of any agricultural crop.	AGI	CIT v B. Gupta Tea Pvt Ltd. (1969) 74 ITR 337 (Cal). Compensation received from Insurance Company on account of damaged caused to the crop is an agricultural Income.
5.	Registration fees collected from the contractor who is bidding at the auction conducted for sale of plantation.	Not AGI	CIT v Tamil Nadu Forest Plantation Corporation Ltd. (2000) 162 CTR 525 (Mad). Such registration had no nexus with Land so it is not agricultural Income.
6.	Hire charges received for use of the garden for shooting films.	Not AGI	B. Nagi Reddi v CIT (2002) 258 ITR 719 (Mad).
7.	Income derived from sale of tender forms by a State Govt undertaking engaged in cultivation of sugarcane.	Not AGI	State Farming Corporation v CIT (1990) 181 ITR 271 (ker)
8.	Where owner performs slaughter tapping and then sells the rubber.	AGI	Jacob (K.C) v Ag. ITO (1977) 110 ITR 402 (Ker)
9.	Income from supply of water for irrigation purpose.	Not AGI	CIT v Sri Ranga Vilas Ginning & Oil Mills (1982) 133 ITR (Mad)
10.	Income from fisheries	Not AGI	CIT v V.T.S Sevaga Pandia Thever (1933) 1 ITR 78 (Mad)

Partial Integration and Non Integration of Agricultural Income: Though there is no tax on Agricultural Income but if the assessee has non agricultural income as well as agricultural income such agricultural income is included in Total Income for the purpose of computation of income tax on non agricultural income. This is also known as partial integration of agricultural income with non agricultural income or indirect way of taxing agricultural income.

Such can be incorporated only when the enumerated two conditions are satisfied:

- Non Agricultural income exceeds the maximum tax exemption limit,
- Agricultural income exceeds Rs. 5,000.

Income which is partially Agricultural and partly from business:

Sl.No.	Rule	Nature of Income	Business Income (BI)	Agricultural Income (AGI)
1.	7A	Growing and selling of Rubber	35%	65%
2.	7B(1)	Sale of coffee grown and cured by the seller.	25%	75%
3.	7B(2)	Sale of coffee grown, cured, roasted, and grounded by the seller with or without mixing chicory.	40%	60%

4.	Composite Business	Such as growing sugarcane & manufacturing sugar, growing cotton manufacturing textiles, growing jute manufacturing jute bags, growing of tomato's and manufacturing of tomato sauce, growing potato and manufacturing of potato chips etc	Sale value of final product **Less:** Market value of Agricultural product Other Expenses	Market value of Agricultural produce **Less:** Cost of growing Agricultural produce

Computation of tax where there is agricultural income: The enumerated steps should be followed for computation of tax;

Steps	Methods
Step-1	Add agricultural income and non agricultural income and calculate tax on the aggregate as if such aggregate income is the total income.
Step-2	Add agricultural income with maximum exemption limit available in case of the assessee and compute tax on such amount as if it is the total income.
Step-3	Deduct the amount of income tax from step 1 – step 2
Step-4	Add surcharge if applicable plus education cess and SHEC @ 3%

Illustrative Examples:

1. **Gross Total Income of Mr P aged 30 yrs as computed under Income Tax Act for the A.Y 17-18 is 4,00,000. He used to deposit** Rs. **50,000 in a PPF Account.**
   Compute tax liability of Mr P assuming that he has agricultural Income of
   A. **Nil**
   B. **Rs. 4,000**
   C. **Rs. 3,50,000**

Solution: For Case A and B

As the agricultural income of Mr P in the two cases A & B is Nil and Rs. 4,000 so, there will be no partial integration and the Income Tax will be calculated as under;

Particulars	Amount (Rs.)
Gross Total Income	4,00,000
Less: Deduction u/s 80C to 80U Section 80C Deposit in PPF	50,000
Net Taxable Income	3,50,000
Tax on Rs. 3,50,000	10,000
Less: Rebate u/s 87A	5,000
	5,000
Add: Education Cess & SHEC @ 3%	150
Tax Payable	5,150

Case: C when agricultural Income is Rs. 3,50,000

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Step-1 Add agricultural income and non agricultural income and calculate tax on the aggregate as if such aggregate income is the total income.	3,50,000 3,50,000	7,00,000	65,000
Step-2 Add agricultural income with maximum exemption limit available in case of the assessee and compute tax on such amount as if it is the total income.	3,50,000 2,50,000	6,00,000	45,000
Step-3 Deduct the amount of income tax from step 1 - step 2			20,000
Less: Rebate u/s 87A			5,000
			15,000
Step-4 Add surcharge if applicable plus education cess and SHEC @ 3%			450
Tax Payable			15,450

2. **The total income of Mrs P, a resident in India, computed for assessment year 2017-18 is Rs. 3,20,000 which includes long term capital gain of Rs. 30,000 and winning of lotteries Rs. 20,000 and short term capital gain covered under section 111A Rs. 10,000. Compute the tax payable assuming his agricultural income for the financial year was Rs. 250,000.**

Solutions:

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Step-1 Add agricultural income and non agricultural income and calculate tax on the aggregate as if such aggregate income is the total income. Tax on Long term Capital gain @20% on Rs. 30,000 Tax on winning lotteries @ 30% on Rs. 20,000 Tax on Short term Capital Gain u/s 111A @ 15% on Rs. 10,000	2,50,000 2,60,000	5,10,000 6,000 6,000 1,500	27,000 13,500 40,500
Step-2 Add agricultural income with maximum exemption limit available in case of the assessee and compute tax on such amount as if it is the total income.	2,50,000 2,50,000	5,00,000	25,000
Step-3 Deduct the amount of income tax from step 1 - step 2			15,500
Less: Rebate u/s 87A			5,000
			10,500
Step-4 Add surcharge if applicable plus education cess and SHEC @ 3%			315
Tax Payable (rounded off)			10,820

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Group - IV

PAPER : 17

CORPORATE FINANCIAL REPORTING (CFR)

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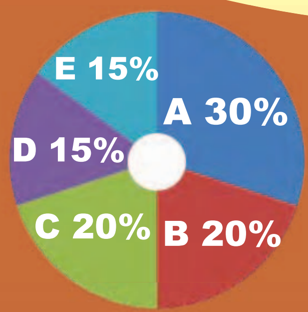
Your Preparation Quick Takes

Syllabus Structure

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



Behind every successful business decision, there is always a CMA

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.

INTRODUCTION

As explained in last bulletin(March, 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.Two major topics on which practical problems are asked are Accounting of Business Combinations and Consolidated Balance Sheets. There are 25% weightage on each of these two topics. In this guide a brief outline is provided about regulatory framework of business combination accounting. Furthermore, few important issues relating to mergers and acquisitions are also discussed.

Accounting Standard on Business Combination Accounting

Accounting Standard 14(AS 14) is the first standard that deals with accounting of mergers and acquisition. This standard is still applicable to the companies those are not required to follow Ind ASs(i.e, converged IFRS set of standards notified in June 2015 and applicable to companies based on net worth and listing status.

Ind AS 103 deals with business combination. It is formulated based on IFRS 103.

AS 14 recognises pooling of interest method for accounting of amalgamations in the nature of mergers apart from purchase method. IFRS 103 allows only purchase method. However, Ind AS 103 recognises the pooling of interest methodfor accounting of business combination transactions between entities under common control.

Purchase method requires accounting of assets and liabilities at acquisition costs or at fair value.

Pooling of interest method allows recording of assets and liabilities at carrying amount by the transferee company. No adjustment is made to reflect fair values of the assets and no new assets or liabilities are recognized. Hence, there may not be any scope of creation of goodwill or capital reserve.

When purchase method is used Goodwill or Capital Reserve may arise as fair values of net assets acquired are likely to be different from purchase consideration.

Different types of Business Combinations

From the perspective of problems that are set on accounting of business combinations, there may be following categorisations:

- Two or more companies are being amalgamated to form a new company.
- One company taking over another company
- A division of a company is separated to form another company.
- A division of a company is sold to another existing company

It is important to identify transferor and the transferee company. Transferor company is merged and loose its existence and transferee company acquires and retains its existence.

Accounting Issues

From accounting perspectives students should be careful about:

- **Determination of swap ratio**- Swap ratio may be given or it may be required to be computed. Swap ratio is generally, based on intrinsic values or market values. Intrinsic values are calculated on the basis of break-up value (net asset value) and yields value. Sometime instead of giving market price, problem gives hints to calculate market price(e.g., P/E ratios may be given)
- Purchase Consideration – It is the net amount given by the acquirer. It may be based on assets and liabilities acquired. Fair values of assets and liabilities acquired should be considered. The no. of shares to be given by the transferee company is generally based on value of net assets acquired.
- Sometimes, problem gives both values of net assets acquired and details of amount given through, share, cash etc. If the details of purchase consideration are given, that should be considered.

End Notes

Solving problems of past examinations will give confidence to the examinees. There is no alternative of hard work.

Best of everything lies ahead.

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PAPER : 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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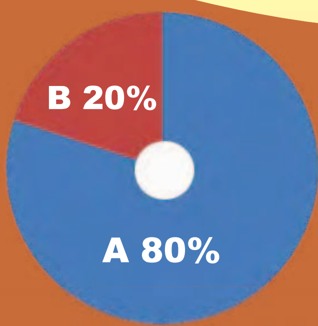
Your Preparation Quick Takes

Syllabus Structure

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



Behind every successful business decision, there is always a CMA

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

CENVAT CREDIT ON CAPITAL GOODS

Introduction

CENVAT Credit refers to the input tax credit that is available for eligible duties or taxes paid on eligible inputs / capital goods/ input services against payment of payment of tax/ duty on final product/ service. The involvement of capital goods in the process of manufacture or rendering of service cannot be denied. Capital goods usually involve high costs and as such the input tax component on such goods also happen to be substantial. So, the CENVAT Credit Rules, 2004 contain specific provisions in this regard.

Capital Goods - Meaning

The term 'Capital Goods' has been defined under Rule 2(a) of the CENVAT Credit Rules, 2004. The definition can be broken down into two parts – the first part deals with general capital goods (including some motor vehicles), while the second part deals specifically with motor vehicles used in certain specific services.

- **General capital goods:** Capital Goods means the following goods, namely:

(i) All goods falling under First Schedule to Central Excise Tariff Act in Chapters 82, 84, 85, 90, Heading numbers 6804, 6805 and Sub-heading 860692, detailed below:

Chapter 82	Tools, implements, cutlery, spoons and forks, of base metal & parts thereof.
Chapter 84	Nuclear reactors, boilers, machinery and mechanical appliances & its parts.
Chapter 85	Electrical machinery and equipment, television image and sound recorders and reproducers, and parts and accessories of such articles.
Chapter 90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof.
Heading 6805	Natural or artificial abrasive powder or grain, on a base of textile material, of paper, of paperboard or of other materials.
Heading 6804	Grinding wheels and the like, and parts thereof .
Sub-heading 860692	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic.

(i) Pollution control equipment;

(ii) Components, spares and accessories of the goods specified at (i) and (ii);

(iii) Moulds and dies, jigs and fixtures;

(iv) Refractories and refractory materials;

(v) Tubes and pipes and fittings thereof;

(vi) Storage tank;

(vii) Motor vehicles (other than those falling under tariff headings 8702, 8703, 8704, 8711)and their chassis; and

(viii) Components, spares and accessories of motor vehicles falling under point (viii) above.

Note: Headings 8702, 8703, 8704 and 8711 cover motor vehicles meant for transport of passengers or goods which are not capital goods. They are detailed hereunder:

Heading 8702	Motor vehicle for transport of 10 or more persons
Heading 8703	Motor cars, station wagons, racing cars
Heading 8704	Motor vehicle for transport of goods
Heading 8711	Motor cycles and mopeds

But, dumpers, tippers, cranes, loaders, with their chassis and accessories are capital goods. [CCE v. India Cements Ltd. (2012)]

- **Motor vehicles**: Motor vehicles are considered as capital goods in the following cases:
  - **Vehicle for transport of goods:**

Eligible Motor Vehicle	Usage of motor vehicle
Motor vehicle designed for transportation of goods including their chassis, registered in the name of the service provider.	(i) providing an output service of renting of such motor vehicle; or (ii) transportation of inputs and capital goods used for providing an output service; or (iii) providing an output service of courier agency

  - **Vehicle for transport of passengers**:

Eligible Motor Vehicle	Usage of motor vehicle
Motor vehicle designed to carry passengers including their chassis, registered in the name of the service provider.	(i) transportation of passengers; or (ii) renting of such motor vehicle; or (iii) imparting motor driving skills

  - Components, spares and accessories of motor vehicles.

How such eligible capital goods should be acquired?

The capital goods on which CENVAT credit can be availed of may be acquired in any one of the following ways:

- Purchased from a supplier;
- Constructed and installed;
- Acquired on lease, hire purchase or loan agreement from a financing company.

How should such Capital Goods be used?

The provision regarding usage depends on whether the capital goods will be used by a manufacturer or a service provider.

- **For manufacturer of final product**: The capital goods can be used either inside or outside the factory.
  - **Inside factory**: The capital goods must be used in the factory (not other places like office) of the manufacturer.
  - **Outside factory**: For generation of electricity for captive use within the factory.
- **For output service provider**: Capital goods must be used for providing output service.

When can CENVAT Credit be taken on Capital Goods?

As per Rule 4(2) of the CENVAT Credit Rules, 2004, the CENVAT credit can be taken on the receipt/ delivery of the capital goods. To be specific:

- **In case of manufacture**: CENVAT Credit can be taken when such capital goods have been received:
  - In a factory; or
  - Outside the factory of the manufacturer of the final products (for generation of electricity for captive use within the factory).
- **In case of a service**: CENVAT Credit can be taken when such capital goods have been:

- Received in the premises of the output service provider; or
- Delivered to the provider of output service (subject to maintenance of documentary evidence of delivery and location of the capital goods).

What is the manner and timing of taking credit allowed on Capital Goods?

As per Rule 4(2) of the CENVAT Credit Rules, 2004, usually the entire amount of eligible CENVAT credit on capital goods is not available in one shot. In other words, CENVAT credit on capital goods is allowed to be taken in instalments as under:

Firstly, in the financial year of receipt/ delivery of capital goods:	CENVAT credit can be taken only for the amount of 50% of the duty paid on such capital goods; and
Thereafter, in subsequent year(s), if goods remain in possession:	Balance CENVAT credit can be taken.

However, there are certain exceptions to this general rule. In other words, full 100% CENVAT credit can be availed on the capital goods in the first year after receipt/ delivery of the goods in the following cases:

- **Clearance as such**: When the capital goods are cleared as such in the same financial year;
- **SSI assessee**: Where an assessee is eligible to avail SSI exemption (i.e. exemption under Notification No. 8/ 2003-CE).
- **Manufacturer claims credit of Special CVD**: When a manufacturer claims credit relating to duly levied u/s 3(5) of the Customs Tariff Act in respect of the capital goods received in the factory of the manufacturer.

Instances when CENVAT Credit on capital goods not allowed?

CENVAT credit is not allowed if:

- the capital goods are used exclusively for manufacture of exempted goods;
- the capital goods are used in the office of a manufacturer. However, CENVAT credit is allowed when a service provider uses the capital goods in its office.
- Depreciation u/s 32 of the Income Tax Act, 1961 has been claimed on the excise portion of the capital goods.

Note to students: The provisions relating to removal and reversal of capital goods will be covered in detail in a subsequent edition.

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PAPER : 19

COST & MANAGEMENT AUDIT (CMAD)

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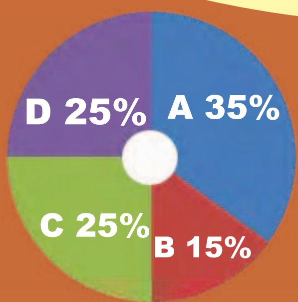
Your Preparation Quick Takes

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%**



Behind every successful business decision, there is always a CMA

Learning Objectives:

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

Internal Audit of Current Asset with specific reference to Receivables.

Introduction

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

Section 138 of the Companies Act 2013, deals with provisions of internal audit. As per section 138 (1) Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or **a cost accountant,** or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Constitution of Current Assets

Current Assets are those assets which can reasonably be expected to be sold, consumed, or exhausted through the normal operations of a business within the current fiscal year or operating cycle, whichever period is longer.

As per Schedule III, Part – 1 of The Companies Act 2013, Current Assets comprises of the following

a) Current Investments
b) Inventories
c) Trade Receivables
d) Cash and cash equivalents
e) Short term loans and advances
f) Other current assets

It has been noted that trade receivable constitute one of the major elements of current assets after inventory for majority of business entities and its correct evaluation and presentation in annual accounts of the company plays avery important role for the true and fair view of affairs of the company. The Cost and Management Accountants are best suited for evaluation, valuation and control of trade receivables for the management.

Trade receivables are amounts due from customers for goods sold or services performed in normal course of business. All receivables which are normal and emerging out of genuine trade transactions only, are to be taken for the purpose of evaluation of Trade Receivables.

Receivables which are not related to normal business transactions or are older than six months or are in the nature of unrecoverable/ bad debts are to be treated as non-current assets. In order to ascertain the one has to study the previous balance sheets and look for repeated items of receivables and wherever necessary seek the clarification from management.

Trade Receivables are generallycalculated or consisting of the followings:

a. Sales amount billed to customers
b. Accrued sales for goods delivered but not billed
c. Contract retentions
d. Suppliers' debit balances
e. Less: Prevision for bad debts
f. Less: Credits for returns
g. Less: Allowances

Receivables should be presented at net realizable amounts (i.e. amounts realistically anticipated to be collectible). Deductions should be taken for amounts estimated to be uncollectible and also for estimated returns, allowances and other discounts to be taken by customers prior to or at time of payment.

Review / verification of receivable

While reviewing the Trade receivables, the auditor should examine the following points:

a) Existence – That the amount recorded in respect of debtors are outstanding as on a particular date.
b) Completeness – The details re complete and there are no unrecorded debtors.
c) Valuation – That the basis of valuation of debtor is appropriate and the recoverability is realistic.
d) Disclosure – That the debtors are disclosed, classified and described in accordance with recognised accounting policies and practices.
e) Verification – The verification of debtors may be carried out by applying an analytical review of records and through direct conformation procedure from debtors.

Further, all material adjustments in debtors' accounts, particularly those relating to rebates, allowances, commissions etc. should require approval of competent authority. Similarly, the writing off of bad debts should be done after follow up of prescribed procedure and due approval of the competent authority.

The following are some of the indicative situations which lead to arise of doubtful and uncollectible of trade receivables.

a) The terms of credit have been repeatedly ignored.
b) There is stagnation, or lack of healthy turnover, in the account.
c) Payments are being received but the balance is continuously increasing.
d) Payments, though being received regularly, are quite small in relation to the total outstanding balance.
e) An old bill has been partly paid (or not paid), while later bills have been fully settled.
f) The cheques received from the debtor have been repeatedly dishonoured.
g) The debt is under litigation, arbitration, or dispute.
h) The auditor becomes aware of unwillingness or inability of the

debtor to pay the dues e.g., a debtor has either become insolvent, or has closed down his business, or is not traceable.

i) Amounts due from employees, which have not been repaid on termination of employment.

j) Collection is barred by statute of limitation.

In addition to the indicative situations discussed above, the following analytical review procedures is also helpful as a means of obtaining audit evidence regarding the various assertions relating to trade receivables.

a) Comparison of closing balances of debtors, loans and advances with the corresponding figures for the previous year;

b) Comparison of the relationship between current year debtor balances and the current year sales with the corresponding figures for the previous year;

c) Comparison of actual closing balances of debtors, loans and advances with the corresponding budgeted figures, if available;

d) Comparison of current year's aging schedule with the corresponding figures for the previous year;

e) Comparison of significant ratios relating to debtors, loans and advances with the similar ratios for other firms in the same industry, if available;

f) Comparison of significant ratios relating to debtors, loans and advances with the industry norms, if available.

The Companies Act, 2013 has provided general instructions for presentation of Trade receivables in the Balance sheet(Point 'P' of the Part – 1 of Schedule III) in the following manner:

Trade Receivables

i. Aggregate amount of Trade Receivables outstanding for a periodexceeding six months from the date they are due for payment should be separately stated.

ii. Trade receivables shall be sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

© Doubtful.

iii. Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

iv. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

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Group - IV

PAPER : 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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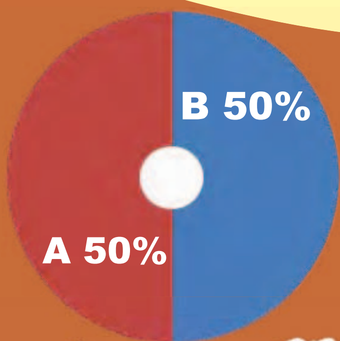
Your Preparation Quick Takes

Syllabus Structure

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



Behind every successful business decision, there is always a CMA

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!

Free Cash Flows and Discounted Cash Flow Model

Business valuation becomes necessary not merely owing to the latest trend of mergers and acquisitions but evidently concerning to recognition of economic value creation sources. For valuation purpose, the concepts of free cash flows and discounted cash flow model are utmost important.

Free Cash Flows

Concept and Meaning of Free Cash Flows (FCF)

Operating cash flows on cash flow statement indicate firm's ability to produce cash flows. However, most of financial analysts quarrel that cash flows from operating activities are funds that not only should be invested in new fixed assets to allow firms to keep current level of operating activities, however a proportion of that fund should be distributed as a dividend or share-repurchase to satisfy stockholders. Thus, cash flows from operating activities, on its' possess, can't be considered as a firm capability to make the cash flows.

According to Jensen (1989), free cash flows is the cash from operating activities after deducting the necessity cash in order to the investment in positive net present value projects. However, projects should be measured regarding to net present value through applying a reliable cost of capital; if the result is positive, the necessity cash for the investment deduct from firm's available cash, whatever remains will be considered as free cash flows. As said by Len and Poulsen (1989), free cash flows is operating income before depreciation expense after tax, interest expense and preferred and common stockholders' dividends. In line with Copeland (1995), free cash flows is the operating income after tax plus non-cash expenses after deducting the investments on working capital, property, plant, equipment and other assets. In keeping with Dechow and Ge (2006), free cash flow is the cash flows from operating activities plus the cash flows from investment activities.

Importance of Free Cash Flows

The importance of free cash flows is given below.

1. The free cash flow is vital because it is an indicator of the financial strength of a business and mostly of its capability to invest in new business opportunities.
2. The free cash flow is used by investors to assess the cash flow amount, which may be available for distribution to investors in the form of dividends.
3. Free cash flow can be shocked by the growth rate of a business. If a company is rising swiftly, then it needs a noteworthy investment in accounts receivable and inventory, which enhances its working capital investment and so reduces the amount of free cash flow. On the other hand, if a business is flinch, it is converting some of its working capital back into cash as receivables are paid off and inventory liquidated, resulting in a rising amount of free cash flow.
4. Free cash flow is important because it permits a company to pursue opportunities that increase shareholder value. Without cash, it is hard to develop new products, build acquisitions, disburse dividends and shrink debt.
5. Free cash flow instead of net income is used to assess a company's financial performance, because free cash flow is more difficult to manipulate than net income.
6. It is important to note that negative free cash flow is not bad in itself; on the face of it. If free cash flow is negative, it could be a signal that a company is making huge investments. If these investments make a high return, the strategy has the potential to recompense in the long run.

Discount Cash Flow Model

Meaning of Discount cash flow model

For businesses that are nearly never public, a model of income based valuation is expected to assess their fair value. Discounted cash flow models determine the intrinsic value of a business and are based on the belief that the current value of an asset is equal to the present value of all usual future cash flows.

In other words, the discount cash flow model is perceived to be the best method for business valuations, nonetheless only if the business is profitable.

Discount cash flow model is feature for the discount cash flow methods that the value of an enterprise is measured by discounting future cash flows. When determining the discount rate, the discount cash flow methods bend on the models of theory of capital market and the Capital Asset Pricing Model. Accordingly of enterprise assessment, the market value of the overall capital or the market value of the own capital, named as "Shareholder Value" are measured.

The discount cash flow methods of assessment are supported by the following requirements:

1. There are no transaction costs and no segmentation of the market.
2. The market subjects have homogeneous expectations.
3. Information is free of cost.
4. The costs of own, loan and overall capital are recognized.
5. The tax rate, costs of loan capital and the entrepreneurial risks are constant, the costs of own capital are calculated by the capital structure.

Features of the Discounted Cash Flow Model

The features of discounted cash flow model are discussed in the following.

1. This model employs published accounting data as input. Historical income statements and balance sheets are utilized to obtain certain significant financial ratios. Those historical ratios are utilized as an initial point in making forecasts for the identical ratios in upcoming

years.

2. The purpose of the discounted cash flow model is to value the equity of a going-concern. Nonetheless, the asset side of the balance sheet is primarily valued. The value of the fixed interest-bearing debt is in that case deducted to obtain the value of the equity. Fixed interest-bearing debt does not comprise delayed income taxes and trade credit.
3. The value of the asset side is the value of operations plus excess marketable securities. The latter can habitually be valued using book values or published market values. Excess marketable securities comprise cash that is not needed for operations. For valuation purposes, the cash account may therefore have to be divided into two fractions, operating cash and excess cash.
4. The operations of the firm, that is, the total asset side minus excess marketable securities, are valued by the WACC method. Alternatively, free cash flow from operations is discounted to a present value using the WACC. There is at that time a simultaneity dilemma relating to the WACC. More specifically, the debt and equity values enter into the WACC weights. On the other hand, equity value is what the model aspires to find out.
5. The asset side valuation is made in two parts: Free cash flow from operations is predicted for a number of individual years in the unambiguous forecast period. Subsequently, there is a regular (post-horizon) value based on free cash flow in the first year of the post-horizon period (and therefore individual yearly anticipates must be completed for each year in the unambiguous anticipate period and for one further year, the first one instantly pursuing the explicit forecast period). The unambiguous anticipate period should entail as a minimum of 10 - 15 years.
6. For any upcoming year, free cash flow from operations is computed from anticipated income statements and balance sheets. This means that free cash flow is based on a reliable situation, defined by anticipated financial statements. This is most likely the main power of the discounted cash flow model, because it is hard to build sensible forecasts of free cash flow in a straight manner. Financial statements are anticipated in nominal terms. This entails that nominal free cash flow is discounted using a nominal discount rate.
7. Continuing value is calculated in the course of an unlimited discounting formula. Alternatively, free cash flow in the post-horizon period enhances by a few constant percentage from year to year, therefore gratifying an essential state for infinite discounting.

Errors in Discounted Cash Flow Model

In practice, many errors in discounted cash flow model are seen. These are:

1. **Too short forecast horizon**: One of the most widespread disapprovals of DCF models are that any anticipate beyond a couple of years is believed. Investors, consequently, are supposed to be richer using more confident, near-term earnings forecasts. Such interpretation makes no logic, for as a minimum two reasons. First, a key component in accepting a business's charisma entails knowing the set of financial beliefs the price represents. The market as a whole has traditionally traded at a price-to-earnings multiple in the mid-to-high teens. Simple math illustrates today's stock prices reveal hopes for value-creating earnings and cash flows many years in the future. The divergence between a short forecast horizon and asset prices that reveal long-term cash flows leads to the second problem.
2. **Uneconomic continuing value**: The continuing value element of a DCF model confines the firm's value for the time beyond the unambiguous anticipate period, which can hypothetically expand into perpetuity.
3. **Cost of capital**: A great equity investor involve a capability to judge the cost of capital better than others as the source of significant edge. But many DCF models are incapacitated by an irrational cost of capital estimate. The cost of capital is an estimate of the rate of return an investor demands to hold an asset or an investor's opportunity cost. As such, the cost of capital is the proper rate for discounting future cash flows to a present value.
4. **Mismatch between assumed investment and earnings growth**: Businesses habitually must invest through working capital, capital spending, acquisitions, R&D, etc.—with the aim of grow over an extended period. Return on investment establishes how economically a company interprets its investments into earnings growth. Since ROI links investment and growth and ROIs have a tendency toward the cost of capital over time, investors must treat the association between investment and growth cautiously.
5. **Improper reflection of other liabilities**: In the free cash flow to enterprise approach, an analyst decides the corporate value based on the present value of future cash flows. The analyst in that case adds cash and any other non-operating assets and subtracts debt and any other liabilities to arrive at shareholder value.
6. **Discount to private market value**: The discount-to-private-market-value model lacks adequate transparency because it conflates the base and synergy cash flows.
7. **Double counting**: Models should not count a rupee of value (or liability) more than once. Unconsciously, DCF models frequently double count the same source of value.
8. **Uncertain future**: Perhaps the most-often-cited disapproval of a DCF model is that small changes in assumptions can cause large changes in the value. Scenario analysis tackles concerns about an uncertain future.

I expect that the advice mentioned above come helpful and may come in the Final Examination.

SUBMISSIONS

Give you thoughts on the Student E-Bulletin. Do you have some news, an achievement, or an aspect of achievement that you would like to share? It so, We would love to hear from you.

E- Mail:- studies.ebulletin@icmai.in
Website: http://www.icmai.in

It you do not think you are getting the e-bulletin via E-Mail, Please let us know, as all students should receive it.

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

PRACTICAL ADVICE

ABOUT YOUR STUDIES - FINAL COURSE

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

VOL:2, No.:4
APRIL, 2017 ISSUE

Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Day & Date	Final Examination Syllabus-2012 Time 2.00 p.m. to 5.00 p.m.	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
11th June, 2017 Sunday	Corporate Laws and Compliance	Corporate Laws & Compliance
12th June, 2017 Monday	Advanced Financial Management	Strateginc Financial Management
13th June, 2017 Tuesday	Business Strategy & Strategic Cost Management	Strategic Cost Management- Decision Making
14th June, 2017 Wednesday	Tax Management & Practice	Direct Tax Laws and International Taxation
15th June, 2017 Thursday	Strategic Performance Management	Corporate Financial Reporting
16th June, 2017 Friday	Corporate Financial Reporting	Indirect Tax Laws & Practice
17th June, 2017 Saturday	Cost & Management Audit	Cost & Management Audit
18th June, 2017 Sunday	Financial Analysis & Business Valuation	Strategic Performance Management and Business Valuation

Message from the Directorate of Studies

Dear Students,

National Students' Convocation-2017 was held on 30th March, 2017 at Kolkata. Prospective students have received their awards and certificates of merit. It gives us immense pleasure to see their bright faces and we appreciate the spirit of our budding cost accountants.

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 your 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;

VOL:2, No.:4
APRIL, 2017 ISSUE

SET THE GOAL

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01.00 Goal

A goal may be described as a desired result or possible outcome that a student envisions, plans and commits to achieve. It could be a personal goal or an organizational goal; It is the desired end-point for the visualised development. Many an individual endeavour to reach goals within a finite time by setting deadlines.

There are several individuals who assume as if they're adrift in the world. They work hard, but they don't seem to get anywhere worthwhile. A key reason that they feel this way is that they haven't spent enough time thinking about what they want from life, and haven't set themselves any formal goals. After all, would you set out on a major journey with no real idea of your destination? Probably not!

Goal setting is a powerful process for thinking about your ideal future, and for motivating yourself to turn your vision of this future into reality. The process of setting goals helps you choose where you want to go in life. By knowing precisely what you want to achieve, you know where you have to concentrate your efforts. You'll also quickly spot the distractions that can, so easily, lead you astray.

02.00 The Need for Goals

Here goes a popular narrative that highlights the importance of goal setting. In 1979 to 1989, a study was conducted in Harvard Business School where the MBA graduates of the school were asked "Have you set a clear, written goals for your future and made plans to accomplish them?"

- 3% of the graduates had written goals and a plan
- 13% had unwritten Goals
- 84% had no goals at all

Ten years later, in 1989, the researcher interviewed the respondents again and it was discovered; that the 13% who had unwritten goals were earning on an average, twice as much as the 84% of the students who had no goals; that the 3% who had clear, written goals when they left Harvard, were earning 10 times as much as the other 97% of the students.

The narrative clearly throws up the competitive edge that arises from well set goals. Top-level athletes, successful business-people and achievers in all fields do all have their goals set. Setting goals gives you long-term vision and short-term motivation. It focuses your acquisition of knowledge, and helps you to organize your time and your resources so that you can make the very best of your life.

By setting sharp, clearly defined goals, you can measure and take pride in the achievement of those goals, and you'll see forward progress in what might previously have seemed a long pointless grind. You will also raise your self-confidence , as you recognize your own ability and competence in achieving the goals that you've set.

03.00 The Process of Setting Goals

You set your goals on a number of levels through a systematized process:

- First you create your "big picture" of what you want to do with your life - or over, say, the next 10 years-, and identify the large-scale goals that you want to achieve.
- Then, you break these down into the smaller and smaller targets for the next 5 years, next year, next month, next week and toady that you must hit to reach your lifetime goals.
- Finally, once you have your plan, you start working on it to achieve these goals.

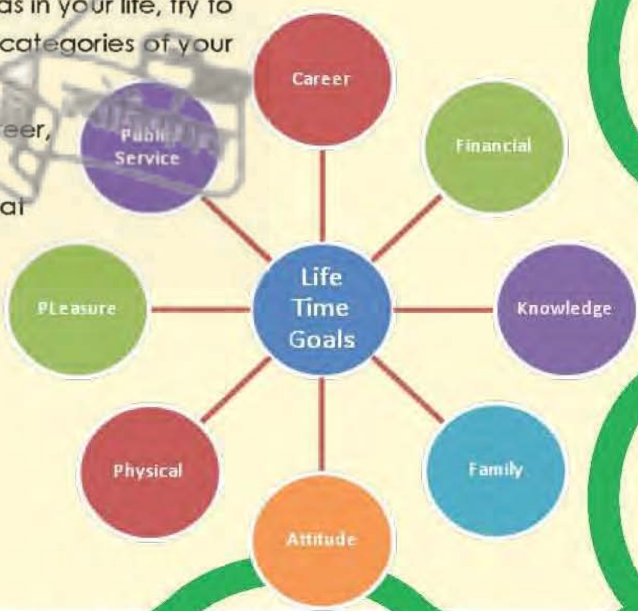
This is how we start the process of setting goals by looking at your lifetime goals. Then, we work them down to the things that you can do in, say, the next five years, then next year, next month, next week, and today, to start moving towards goals.

04.00 Lifetime Goals

The first step in setting personal goals is to consider what you want to achieve in your lifetime or at least, by a significant and distant age in the future. Setting lifetime goals gives you the overall perspective that shapes all other aspects of your decision making. In a way, life time goals reflect the vision of an individual.

To give a broad, balanced coverage of all important areas in your life, try to set goals in some of the following categories or in other categories of your own, as are considered important to you:

- **Career:** What level do you want to reach in your career, or what do you want to achieve?
- **Financial:** How much do you want to earn, by what stage? How is this related to your career goals?
- **Knowledge:** Is there any knowledge you want to acquire in particular? What information and skills will you need to have in order to achieve other goals?
- **Family:** What sort of partner you want? How are you going to be a good parent? How do you want to be seen by a partner or by members of your extended family?



- **Attitude:** Is any part of your mindset holding you back? Is there any part of the way that you behave that upsets you? If so, set a goal to improve your behavior or find a solution to the problem.
- **Physical:** Are there any athletic goals that you want to achieve, or do you want good health deep into old age? What steps are you going to take to achieve this?
- **Pleasure:** How do you want to enjoy yourself?
- **Public Service:** Do you want to make the world a better place? If so, how?

Spend some time brainstorming these things, and then select one or more goals in each category that best reflect what you want to do. Then consider trimming again so that you have a small number of really significant goals that you can focus on.

As you do this, make sure that the goals that you have set are ones that you genuinely want to achieve, not ones that your parents, family, or employers might want. If you have a partner, you probably want to consider what he or she wants – however, make sure that you also remain true to yourself! Crafting a personal mission statement can help bring your most important goals into sharp focus.

05.00 Setting Smaller Goals

Once you have set your lifetime goals, set a five-year plan of smaller goals that you need to complete if you are to reach your lifetime plan.Then create a one-year plan, six-month plan, and a one-month plan of progressively smaller goals that you should reach to achieve your lifetime goals. Each of these should be based on the previous plan.Then create a daily To-Do-List of things that you should do today to work towards your lifetime goals.

Smaller goals are reflective of mission on hand. At an early stage, your smaller goals might be to read books and gather information on the achievement of your higher-level goals. This will help you to improve the quality and feasibility of your goal setting.Finally review your plans, and make sure that they fit the way in which you want to live your life.

Once you've decided on your first set of goals, keep the process going by reviewing and updating your To-Do List on a daily basis.Periodically review the longer term plans, and modify them to reflect your changing priorities and experience. A good way of doing this is to schedule regular, repeating reviews using a digital diary.

06.00 SMART Goals

A useful way of making goals more powerful is to use the SMART mnemonic.There are many variations of what SMART stands for, but the essence is this – goals should be: Specific, Measurable, Attainable, Relevant, and Time Bound.

06.01 Specific Goals

Your goal must be clear and well defined. Vague or generalized goals are unhelpful because they don't provide sufficient direction. Remember, you need goals to show you the way. Make it as easy as you can to get where you want to go by defining precisely where you want to end up.

06.02 Measurable Goals

Include precise amounts, dates, and so on in your goals so that you can measure your degree of success. If your goal is simply defined as "To reduce expenses" how will you know when you have been successful? In one month's time if you have a 1 percent reduction or is it in two years' time when you have a 10 percent reduction? Without a way to measure your success you miss out on the celebration that comes with knowing you have actually achieved something.

06.03 Attainable Goals

Make sure that it's possible to achieve the goals you set. If you set a goal that you have no hope of achieving, you will only demoralize yourself and erode your confidence. However, resist the urge to set goals that are too easy. Accomplishing a goal that you didn't have to work hard for can be anticlimactic at best, and can also make you fear setting future goals that carry a risk of non-achievement. By setting realistic yet challenging goals, you hit the balance you need. These are the types of goals that require you to "raise the bar" and they bring the greatest personal satisfaction.

06.04 Relevant Goals

Goals should be relevant to the direction you want your life and career to take. By keeping goals aligned with this, you'll develop the focus you need to get ahead and do what you want. Set widely scattered and inconsistent goals, and you'll fritter your time – and your life – away.

06.05 Time-Bound Goals

Your goals must have a deadline. Again, this means that you know when you can celebrate success. When you are working on a deadline, your sense of urgency increases and achievement will come that much quicker.For example, instead of having "to sail around the world" as a goal, it's more powerful to use the SMART goal "To have completed my trip around the world by December 31, 2017." Obviously, this will only be attainable if a lot of preparation has been completed beforehand!

07.00 Achieving Goals

When you've achieved a goal, take the time to enjoy the satisfaction of having done so. Absorb the implications of the goal achievement, and observe the progress that you've made towards other goals.If the goal was a significant one, reward yourself appropriately. All of this helps you build the self-confidence you deserve.

With the experience of having achieved this goal, review the rest of your goal plans:

- If you achieved the goal too easily, make your next goal harder.
- If the goal took a dispiriting length of time to achieve, make the next goal a little easier.
- If you learned something that would lead you to change other goals, do so.
- If you noticed a deficit in your skills despite achieving the goal, decide whether to set goals to fix the deficit.

It is important to remember that failing to meet goals does not matter much, just as long as you learn from the experience. Feed lessons you have learned back into the process of setting your next goals.

Remember too that your goals will change as time goes on. Adjust them regularly to reflect growth in your knowledge and experience, and if goals do not hold any attraction any longer, consider letting them go.

Recall the example of Thomas Alva Edison. Edison was successful because he was creative and had a strong willingness to learn new things. He had a mastermind alliance with a group of experts, to bridge his weakness. He was also persistent in whatever he does. When he failed 10,000 times to perfect the electric light bulb, he did not treat it as 10,000 failures. To Edison, he discovered 10,000 ways that do not work!

08.00 An Example of Personal Goal

As a New Year's Resolution, Vijay has decided to think about what he really wants to do with his life. His lifetime Career Goal is set "To be the Managing Director of the Company that I work for."Now that Vijay had set his lifetime career goal, he then breaks down each one into smaller, more manageable goals.

Let's take a closer look at as to how Vijay might break down his lifetime career goal of becoming the managing director:

- Five-year goal: "Become General Manager."
- One-year goal: "Volunteer for projects that the current Managing Director is heading up."
- Six-month goal: "Go back to a management school and finish the research."
- One-month goal: "Talk to the current managing director to determine what skills are needed to do the job."
- One-week goal: "Fix the meeting with the Managing Director."

As you can see from this example, breaking big goals down into smaller, more manageable goals makes it far easier to see how the goal can get accomplished.

09.00 The Five Golden Rules

09.01 Set Goals that Motivate You

When you set goals for yourself, it is important that they motivate you: this means making sure that they are important to you, and that there is value in achieving them. If you have little interest in the outcome, or they are irrelevant given the larger picture, then the chances of you putting in the work to make them happen are slim. Motivation is key to achieving goals.

Set goals that relate to the high priorities in your life. Without this type of focus, you can end up with far too many goals, leaving you too little time to devote to each one. Goal achievement requires commitment. So to maximize the likelihood of success, you need to feel a sense of urgency and have an "I must do this" attitude.

When you don't have this, you risk putting off what you need to do to make the goal a reality. This in turn leaves you feeling disappointed and frustrated with yourself, both of which are de-motivating. And you can end up in a very destructive "I can't do anything or be successful at anything" frame of mind.

09.02 Set SMART Goals

The simple fact is that for goals to be powerful, they should be designed to be SMART. This concept has already been discussed in one of the previous sections.

09.03 Set Goals in Writing

The physical act of writing down a goal makes it real and tangible. Remember the saying: "Idea is just a dream until you write it down...Then it is a goal". You have no excuse for forgetting about it. As you write, use the word "will" instead of "would like to" or "might." For example, "I will reduce my operating expenses by 10 percent this year," not "I would like to reduce my operating expenses by 10 percent this year." The first goal statement has power and you can "see" yourself reducing expenses, the second lacks passion and gives you an excuse if you get side tracked. Post your goals in visible places to remind yourself every day of what it is you intend to do. Put them on your walls, desk, computer monitor, bathroom mirror or refrigerator as a constant reminder.

09.04 Make an Action Plan

This step is often missed in the process of goal setting. You get so focused on the outcome that you forget to plan all of the steps that are needed along the way. By writing out the individual steps, and then crossing each one off as you complete it, you'll realize that you are making progress towards your ultimate goal. This is especially important if your goal is big and demanding, or long-term.

09.05 Stick to the Action Track

Remember, goal setting is an ongoing activity and not just a means to an end. Build in reminders to keep yourself on track, and make regular time-slots available to review your goals. Your end destination may remain quite similar over the long term, but the action plan you set for yourself along the way can change significantly. Make sure the relevance, value, and necessity to remain high on your action track.

10.00 Key Takeaways

Goal Setting is an important method of:

- Deciding what you want to achieve in your life.
- Separating what is important from what is relevant, or a distraction.
- Motivating yourself.
- Building self-confidence, based on successful achievement of goals.

Set your life time goals first. Then, set a five-year plan of smaller goals that you need to complete if you are to achieve your life time plan. Keep the process going by regularly reviewing and updating your goals. And remember to take time to enjoy the satisfaction of achieving your goals when you do so. Adapt the Five Golden Rules as a way of life.

As you make this technique part of your life, you'll find your career accelerating as also stimulating.

11.00 A True Inspirator

Sandeep Singh Bhinder, is an Indian professional field hockey player and an ex-captain of the Indian National Team. He made his international debut in January 2004 in Sultan Azlan Shah Cup in Kuala Lumpur. He took over as the captain of the Indian national team in January 2009. At a time when he was at his peak, he was said to have the best speed in the world in drag flick (speed 145 km/h).

On 22 August 2006, Singh was seriously injured after being hit by an accidental gunshot in Shatabadi train, while on his way to join the national team due to leave for the World Cup in Germany two days later. He was almost paralyzed and on a wheelchair for two years of his life. Sandeep Singh Bhinder not only recovered from that serious injury, but also established himself again in the team.

Under his captaincy, the Indian team managed to clinch the Sultan Azlan Shah Cup in 2009 after defeating Malaysia in the finals at Ipoh. India won the title after a long wait of 13 years. Singh was also the top goal scorer of the tournament.

The India men's national Hockey team had qualified for the 2012 Summer Olympics in London after a gap of 8 years. The team had a resounding victory over France in the finals of the Olympic qualifiers by beating France 8–1. Ace drag-flicker Singh starred in the final against France by scoring five goals – including a hat-trick – all from penalty corners (19th, 26th, 38th, 49th and 51st minutes). Singh was the highest scorer of the Olympic qualifiers tournament by scoring 16 goals.

Sandeep Singh Bhinder had set his goal to become the best drag flicker; and to-date he is regarded as one of the best drag flickers of the game. A true inspirator-indeed!

12.00 Quick Take

Hey budding Manager, Get up and Set Your Goal!

Resources

1. Researched inputs by the faculty of Shantiniketan Business School, Nagpur
2. www.mindtools.com
3. www.wikipedia.org
4. www.skillsyouneed.com
5. www.helpguide.org
6. 10 Inspirational & Successful People Who Did Not Let Failure Define Them, Akanksha Prabhune, www.storypick.com, 12.04.2017

Glimpses of National Students' Convocation -2017 held on March 30, 2017 at Kolkata.

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