CMA STUDENTS' E-BULLETIN

FINAL

VOL:2 NO: 6

JUNE, 2017 ISSUE

(SYLLABUS 2016)

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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Behind every successful business decision, there is always a CMA

Message from the President

Dear Students,
Greetings,

Education is the ability to listen to almost anything without losing your temper or your self-confidence." — Robert Frost

We all acknowledge the importance of education, knowledge and truth for promoting the world outlook. Education is a must for global citizenship and such a person always works for the benefits of humanity. I personally believe that education produces citizens who are men of intellectual and moral integrity. Education aims at producing ideal human-beings. These people are truly cultured, wise, tolerant and public-spirited.

The more we learn, the easier learning becomes. Once our mind develops that aptitude for absorbing new facts it becomes much more efficient at learning things. A good education is useful in professional course as well and an all round education will get a person off to a good start in life.

I am happy to know that you are finding E-bulletins useful in your preparation and for that I must appreciate the effort taken by the Directorate of Studies. My sincere thanks go to all the eminent academicians; contributed in this issue of the bulletin.

I am sure all of you have come to know that the **Hon'ble President of India, Shri Pranab Mukherjee** has consented to be the **Chief Guest of the Global Summit 2017** to be held on 29th and 30th June, 2017 in Kolkata. **Hon'ble Governor of West Bengal Shri Keshari Nath Tripathi** and **Hon'ble Minister of State for Finance and Corporate Affairs, Govt. of India, Shri Arjun Ram Meghwal** will be the **Guests of Honour**.

Being the true Ambassador of your Institute I am asking you to please come and join in the programme and make it remarkable. Boost up your energy and participate in the programme whole-heartedly!

Best wishes

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

Be a CMA, be a Proud Indian

Message from the Chairman

"When an idea exclusively occupies the mind, it is transformed into an actual physical or mental state" -Swami Vivekananda

Dear Students,

Hope, those who appeared in the June term of examination have done well. A truly educated man always seeks perfection. He is not a specialist who has perfected only his body or the intellect or the mind but one who seeks the development of all his faculties.

To face with all kinds of challenges in life you need to be educated. Education is important for the personal, social and economic development of the nation. Education is important to live with happiness and prosperity. The value of education and its significance can be understood from the fact that as soon as we are born, our parents start educating us about an essential thing in life.

In today's era, it is extremely important to know about the significance of a good education. A good education does not simply consist of getting a degree. It goes beyond that. Education provides the capability to know what is important for him, what is wrong and what is right. Through this course we are trying to offer you a comprehensive knowledge so that tomorrow you may combat with the challenges efficiently. After getting professionally qualified, you will be able to fight the various social evils and feels empowered to eradicate such problems too.

Thorough preparation in the subjects will help you and I feel the issues of E-bulletin are helping you in that way. Mock Test Papers are also giving you the needed impetus.

All of you must be knowing about the Global Summit,2017 to be held in Kolkata on 29th & 30th June, 2017. Please try to attend the Summit as the **Hon'ble President of India, Hon'ble Governor of West Bengal and Hon'ble Minister of State for Finance & Corporate Affairs, Government of India** has kindly consented to grace the occasion.

"Education is the passport to the future, for tomorrow belongs to those who prepare for it today".

Have a bright future ahead,

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

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GLOBAL SUMMIT 2017

Venue

Day - 1 (29th June 2017) 11.00 a.m.
Main Auditorium of Science City
JBS Haldane Avenue, Kolkata - 700046
&
Day - 2 (30th June 2017) 09.00 a.m.
Eastern Zonal Cultural Centre (EZCC)
IB-201, Sector-III, Salt Lake City
Kolkata - 700106

ACADEMIC & ECONOMIC REFORMS

Role of Cost & Management Accountants

CHIEF GUEST

Shri Pranab Mukherjee
Hon'ble President of India

GUESTS OF HONOUR

Shri Keshari Nath Tripathi
Hon'ble Governor of West Bengal

Shri Arjun Ram Meghwal
Minister of State for Finance and Corporate Affairs, Govt. of India

Organized by

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

Behind Every Successful Business Decision, there is always a CMA

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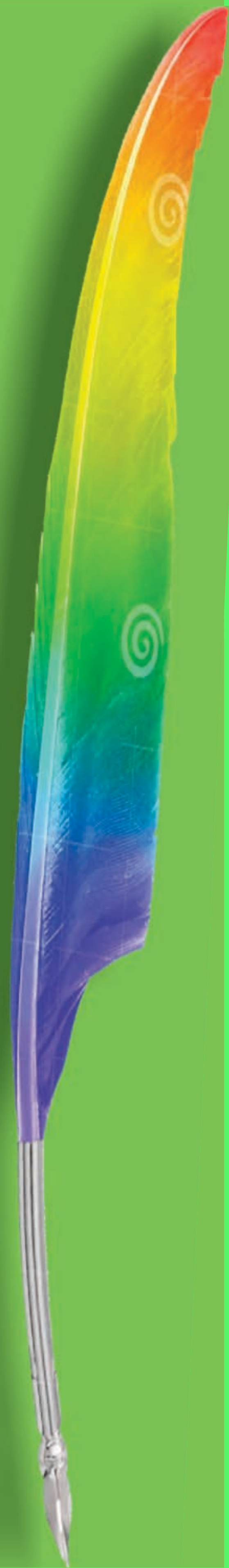
KNOWLEDGE UPDATE



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

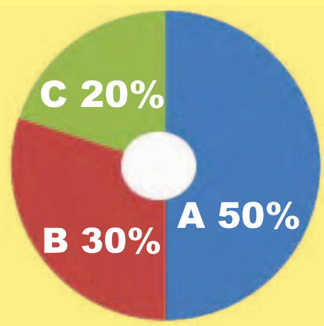
PAPER : 13

CORPORATE LAWS & COMPLIANCE (CLC)

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

Your Preparation Quick Takes

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



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.

How to answer questions in Examination- General Advise

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

Powers and Duties of the Board (Section 179 & 166)
The Board of directors shall exercise the following powers subject to the resolutions passed at the meeting.

1. to make calls to shareholders in respect of money unpaid on their shares.
2. toauthorise buy-back of securities under section 68.
3. to issue securities, including securities (in or outside India)
4. to borrow monies.
5. to invest the funds of the company.
6. to grant loans or give guarantee or provide securities in respect of loans.
7. to approve financial statements and the Board's report.
8. to diversify the business of the company.
9. to approve amalgamation, merger and reconstitution.
10. to take over a company or acquire a controlling or substantial stake in another company.

The following are the duties of Board:

1. A director of a company should act in accordance with the articles of the company.
2. A director should act in act in good faith in order to promote the objects of the company for the benefit of its members, its employees, its shareholders, itscommunity for the protection of the environment and in the best interest of the company.
3. A director shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
4. A director shall not involve in a situation in which he is directly or indirectly interested and which conflicts with the interest of the company.
5. A director shall not achieve any undue advantage or gain either by himself or through his relatives.
6. A director shall not assign his office any assignment so made will be void.

Managerial Remuneration (Section 197)

The total managerial remuneration payable by a public company to its directors, whole-time directors and its managers in respect of any financial year shall not exceed eleven-percent of the net profit which is calculated according to section 198 except the remuneration shall not be deducted from the gross profit.

The company can also give in also pay in excess of eleven percent subject to special resolution in general meeting.

Further the company except with the approval of the company in general meeting-

(i) the remuneration payable to one managing director, whole-time director and manager should not be more than five percent of the net profit of the company and if there is more than one such director then ten percent of the net profit to all such directors and managers taken together.

(ii) the remuneration payable to any other director who are neither whole-time director or manager

(A) one percent of the profit if there is a managing director, whole time director or a manager.

(B) three percent in any other case.

Political Contribution (Section 182)

A company other than a Government company and a company which has been in existence for less than three financial years may directly or indirectly contribute any amount to political party provided a resolution of the Board has been passed in this regard.

The aggregate of such amount shall not exceed seven and a half percent of its net profit during the three immediately preceding financial years.

The amount so contributed should be shown in the in its P/L account giving particulars of the total amount contributed and the name of the party which to which it has contributed.

Corporate Social Responsibility (Section 135)
Every company which has:

(i) a net worth of five hundred crore or more or;
(ii) turnover of one thousand crore or more or;
(iii) net profit of five or more during any financial year,

shall constitute a Corporate Social Responsibility committee consisting of three or more directors out of which at least one should be independent director.

The Board shall ensure that a company spends at least two percent of the average net profit of the company made during the three immediately preceding financial years.

Functioning of the Board:

1. Chairman of the Board chairs the meetings of the Board. If the regular chairman is not present and Articles of association permit, a director may be appointed as a chairman of the meeting.
2. Quorum: minimum number of directors to be present to make the meeting valid. If the quorum is not present the meeting shall be automatically adjourned to same place, time and venue on the same day next week.
3. Each director has one vote. In case of a tie the Chairman will have a casting vote subject to the provisions in the Articles of Association.
4. Interested director shall not vote. (Interest means personal interest) (disclosure of interest under section 184 is compulsory at the time of joining)
5. All decisions shall be simple majority decisions. However unanimous decision shall be taken in case of;
   (a) Inter corporate investments above certain limit.
   (b) Appointing any person as an MD of the company if he is already an MD or a manager of one and not more than one company .
6. **Leave of absence:** If a director is absent from 3 consecutive Board meetings without taking leave of absence he will be disqualified from remaining a director of the company.
7. **Voluntary adjournment**; The Board can voluntarily adjourn its meeting. In case of automatic adjournment the meeting stands adjourned to next week same day, same time and same venue unless another venue is fixed.
8. Adjournment of meeting and deferment of consideration / decision of an item.
9. One Board meeting in each quarter is a must. No limit for maximum number of meetings. There shall not be a gap of 120 days between two meetings.
10. Minimum 7 days notice of the Board meeting must be given to all directors staying even outside India.
11. Preponement and postponement of meetings can be done.

Powers of the Board to be exercised only in a Board meeting i.e. these item cannot be passed by through resolution by circulation:

Most of the powers are to be exercised by the Board in a duly convened meeting. Other powers be exercised by resolution by circulation. Resolution by circulation means that a resolution in draft.

In the Companies Act, 2013 the consent of majority of directors is needed instead of all directors.
All resolutions passed by circulation shall have to be mandatorily noted in the next board meeting and should be made part of the minutes.

If 1/3rd of the directors want that the resolution have to be decided in the meeting then the chairperson should put the resolution to be decided in the meeting.

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Group - III

PAPER : 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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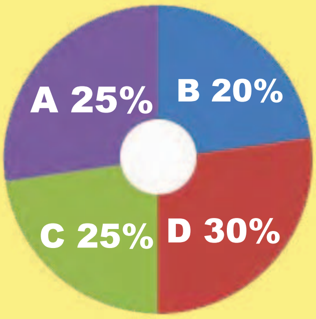
Your Preparation Quick Takes

Syllabus Structure

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



Learning objectives:
After studying this section, you will be able to:

- understand the concept of hedging with the help of futures contracts
- cognize the concept of short hedge, long hedge and cross hedge
- compute the hedge ratio

Hedging is the process of reducing exposure to risk. Futures contracts are important means of hedging as they enable the market participants to alter the risks they face from unexpected adverse price changes. Futures act as a hedge when a position is taken in them which is opposite to that of the existing or anticipated cash position. Generally, there are three types of hedge – Short hedge, Long hedge and Cross hedge.

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

Long Hedge
Hedge that involves taking a long position in the future contract is known as long hedge. In a long hedge, hedgers hedge their position in cash market by going long in futures market i.e., he buys futures contracts when he or she is either currently short in the spot market or is obliged to buy the good at the spot price prevailing at a future date. The long hedger faces the risk that prices may rise. If a price rise does take place, the long hedger would incur a loss in the spot market but would realize gains on the long future position.

Cross Hedge
Cross hedge is the hedge in which the asset whose price is to be hedged may not exactly match with the asset underlying the futures contract. In other words, a cross hedge is one in which the cash asset and the asset underlying the futures contract are not identical. This situation arises when the hedge uses a futures contract with an underlying asset different from the one he is currently on (i.e. long or short).

Hedge Ratio
The hedge ratio is the ratio of the size of the position taken in futures contracts to the size of the exposure. The hedger should choose a value for the hedge ratio that minimizes the variances of the value of the hedged position [Hull (2009)]. To hedge completely against the systematic risk with the help of futures contracts, the following formula is used:

$$\beta \text{ of the stock portfolio} * \frac{\textbf{Value of the portfolio}}{\textbf{Value of a futures contract}}$$

Illustration
Suppose Mr. Z has a portfolio of Rs. 8,00,000 with a portfolio beta of 1.2 and expects the market to go down in next one month. A One month index future on Nifty is trading at 6000 and the contract multiplier is 20. In this situation Mr. Z has two options: (i) He can go to the spot market and sell his portfolio to buy the same again after a fall in prices (ii) He can use index futures to protect the value of his portfolio from the expected fall. Let us consider, Mr. Z chooses the second option to hedge his downside risk. To hedge the systematic risk of Mr. Z's portfolio, he has to sell index futures. Now, if the market goes down as expected by him, he would lose in the cash market but gain in the futures market. Accordingly, whatever losses he realizes in cash market transactions resulting from the downward movement of the market, get compensated fully or partly by the profits on his future positions. Thus, hedge ratio is (8,00,000 * 1.2) / (6000*20) = 8 contracts. It means that Mr. Z has to sell 8 contracts in futures market to hedge his position in the cash market against the market risk completely.

Group - III

PAPER : 15

STRATEGIC COST MANAGEMENT - DECISION MAKING (SCMD)

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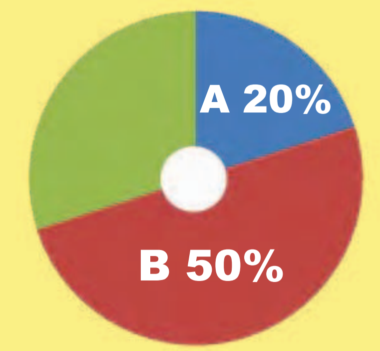
Your Preparation Quick Takes

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 Practice makes it Perfect

Multinationals such as Dell Computers, Wal-Mart, McDonald's, etc. are reported to use Learning Curves and Experience Curves as key elements of their strategies to achieve cost reduction and increase customer satisfaction, market share and profitability. Bottom lines are strengthened by gaining from learnings and experiences.

Learning Curve is identified as a function that measures as to how labour hours per unit of product or service keep declining as the workers keep learning with every repetition of a job. Similarly, Experience Curve is defined as a function that measures the decline in the cost per unit in various business activities of the value chain in relation to the increase in the quantum of an activity. It may be stated that Learning Curve reveals the labour savings that accrues when a job is done repeatedly; whereas an Experience Curve reveals the savings that accrues on account of quantum jumps over a period.

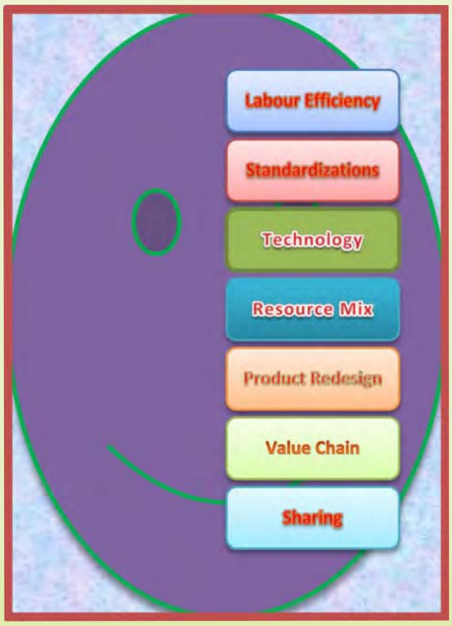
The salient observation is that as an individual or organization gets more experience at a task, it would usually lead to better efficiency and higher productivity. In that the learning curve effect and the experience curve effect express the relationship between experience and efficiency. Both the concepts are a modern formulation of the old adage, 'Practice makes it Perfect'.

02.00 The Discovery

The experience curve is an idea stated to have been developed by the Boston Consulting Group (BCG) in the mid-1960s. Working with a leading manufacturer of semiconductors, the consultants noticed that the company's unit cost of manufacturing fell by about 25% for each doubling of the volume that it produced. This relationship, they called the experience curve: the more experience a firm has in producing a particular product, the lower are its costs.

BCG inferred that costs characteristically decline by 20-30% in real terms each time accumulated experience doubles. This means that when inflation is factored out, costs should always decline. The decline is fast if growth is fast and slow if growth is slow.

03.00 The Causes



There are a number of reasons attributed to the occurrence of the learning curve and the experience curve. Some of the important reasons are furnished below.

Labour Efficiency: Workers become physically more dexterous. They become mentally more confident and spend less time hesitating, learning, experimenting, or making mistakes. Over the time they tend to learn short-cuts and improvements. As a consequence, the efficiency keeps on improving. The phenomenon extends to all employees and even to managers, not just those directly involved in production.

Standardizations: Standardizations and specializations contribute considerably towards enhancement of productivity. As processes, raw materials, components, and products become more standardized, efficiency tends to increase. When employees specialize in a limited set of tasks, they gain more experience in repeating and performing the tasks and the production increases at a faster rate.

Technology: Automated production technology and information technology can introduce efficiencies as they are implemented and people learn how to use them efficiently and effectively.

Resource Mix: As a company acquires experience, they can alter their mix of inputs and thereby become more efficient.

Product Redesign: Products can be redesigned towards functional improvements as also on the basis of consumer needs and feedback. The process of redesigning may bring in better efficiencies. Higher number of products and higher volumes of production may facilitate process reengineering and higher productivity.

Value Chain: Experience curve effects can be extended to both the ends of value chain, i.e. suppliers as well as distributers. The advantages are mutual. Suppliers and Distributers can suggest methods and means of improving the productivity; at the same time they can draw the lessons for achieving higher efficiencies in their organizations.

Sharing: When two or more products share a common activity or resource, the effects of Experience Curve are reinforced. The efficiency learnings elicited from one product can be applied to the other products and vice versa.

04.00 Cost Leadership

Experience Curve paves the way to Cost Leadership. The BCG strategists examined the consequences of the experience effect for businesses. They concluded that the low cost of operations is a very powerful strategic advantage; firms should capitalize on these learning and experience effects.

The reasoning is that increased activity leads to increased learning, which leads to lower costs, which can lead to lower prices, which can lead to increased market share, which can lead to increased profitability and market dominance.

According to BCG, striving for market dominance in this way is the most effective business strategy. This holds well, in particular, when a firm had an early leadership in market share. It was claimed that if you cannot get enough market share to be competitive, you should get out of that business and concentrate your resources where you can take advantage of experience effects and gain dominant market share. The BCG strategists developed product portfolio techniques like thewell known BCG Matrix to manage this strategy.

The BCG strategists felt that maintaining a relatively high price, although very profitable in the short run, would spell disaster in the long run. They felt that high prices would encourage competitors to enter the market, triggering a steep price decline and a competitive shakeout. If prices are reduced in line with the decline in the unit costs, the competitive entries could be restrained, and market share maintained. Dispersal of the cost reduction benefits amongst customers would cement the customer loyalty and maintain the market advantage.

05.00 The Quantum

The quantum of Experience Curves Effects in relation to various industries, calculated by NASA,is reported to be as follows:

- Aerospace: 85%
- Shipbuilding: 80-85%
- Complex machine tools for new models: 75-85%
- Repetitive machining or punch-press operations: 90-95%
- Repetitive electrical operations: 75-85%
- Repetitive welding operations: 90%
- Raw materials: 93-96%
- Purchased Parts: 85-88%

It is very revealing exercise where the impact appears to be quite significant.

06.00 Criticisms

Some of the researchers claim that it is impossible to quantify the Experience Curve Effects in relation to a majority of the organizations. They claim that experience effects are so closely intertwined with economies of scale that it is impossible to separate the two. In theory we can say that economies of scale are those efficiencies that arise from an increased scale of production, and that experience effects are those efficiencies that arise from the learning and experience gained from repeated activities, but in practice the two mingle with each other.

Where growth of experience coincides with increased production, economies of scale are considered one of the reasons why experience effects exist. Likewise, experience effects are considered as one of the reasons why economies of scale exist. Such a mingling makes assigning a numerical value to either of the effects very difficult and cumbersome.

Others counter that it is a mistake to take either learning curve effects or experience curve effects as a given. They emphasize that the effects are derived neither from any universal law nor by means of any strong tendency born of nature. The effects are gained by rigorous practice.

The experience effects reflect the cost reductions that have been achieved from a concerted effort by all those involved. The effects are born out of opportunities evolved by the management, rather than a general characteristic of organizations. If not managed properly the cost would tend to rise and impair the performance, in spite of increased production.

At the end, the fact remains that Experience Curve Effects are the advantages that would accrue to an early beginner, similar to that of 'Early bird catching the worm first'. The advantage is worth Preserving.

07.00 Extrapolations

The historical trend in cost reductions expressed by experience curves can be extrapolated and used to analyse future cost reductions. Experience curves have also been used for several decades to analyse the cost reduction of new technologies. The cost reduction refers to the reductions in the total cost comprising capital, material, labour, utilities, administrative costs, marketing costs, and research costs, etc. The causes of cost reduction include cost reductions due to changes in production viz. process incremental innovations, learning effects and scaling effects; changes in the product i.e. product incremental innovations, product redesign and product standardization; changes in input prices and, also, changes in the entire socio-technical system.

Experience Curves should rather be used to provide guidance of future cost development and insight into the capabilities and limitations of the further diffusion and adoption of new technologies than for forecasting future costs.

Considering complexity of the causes and effects, experience curves ought to be used with due care and caution. Moreover, the uncertainty and diversification embedded in the experience curve limits any prediction of future cost. For this reason experience curves should rather be used to provide guidance of future cost development and insight into the capabilities and limitations of the further diffusion and adoption of new technologies than for forecasting future costs.

08.00 Strategic Significance

It goes without saying that Cost Leadership is an essential prerequisite for business prosperity. It is reported that many of the multinationals continue to anchor their cost leadership strategies based on experience-based cost reductions. And, there lies the strategic significance of Learning and Experience Effects.

VOL:2, No.:6
JUNE, 2017 ISSUE

Group - III

PAPER : 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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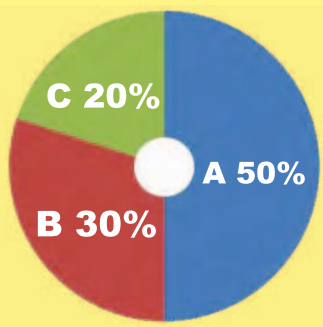
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

- 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.

Introduction:

The hullaballoo about black money is not new in India. Since the independence of the country many commissions and measures have been underway, albeit with little success. In consequences, the quantum of black money has been on the rise steadily so much that the Indian economy has the dubious distinction of having a parallel economy. Not only this, a huge amount of the money and wealth have found its way continuously into the vaults of the Swiss Banks and its ilk or they have been harboured in foreign assets, all illegally !
The purpose of Act is to "make provisions to deal with the problem of the Black money that is undisclosed foreign income and assets, the procedure for dealing with such income and assets and to provide for imposition of tax on any undisclosed foreign income and asset held outside India and for matters connected therewith or incidental thereto". *The Act applies with effect from the Assessment Year 2016-17.*

Who is covered under this Act?

The definition of assessee under this Act covers only *a resident and ordinarily resident*by whom tax in respect of undisclosed foreign income and assets, or any other sum of money, is payable under this Act and includes every person who is deemed to be an assessee in default under this Act.

Meaning of undisclosed foreign income and asset:

The term "*undisclosed foreign income and asset*" has been defined to mean the total amount of undisclosed income of an assessee from a source located outside India and the value of an undisclosed asset located outside India; and "*undisclosed asset located outside India*" means an asset (including financial interest in any entity) located outside India, held by the assessee in his name or in respect of which he is a beneficial owner, and he has no explanation about the source of investment in such asset or the explanation given by him is in the opinion of the Assessing Officer unsatisfactory.

Scope of total undisclosed foreign income and asset:

Subject to the provisions of this Act, the total undisclosed foreign income and asset of any previous year of an assessee shall be:
(a) the income from a source located outside India, which has not been disclosed in the return of income furnished within the time specified in Explanation 2 to sub-section (1) or under sub-section (4) or sub-section (5) of section 139 of the Income-tax Act;
(b) the income, from a source located outside India, in respect of which a return is required to be furnished under section 139 of the Income-tax Act but no return of income has been furnished within the time specified in Explanation 2 to sub-section (1) or under sub-section (4) or sub-section (5) of section 139 of the said Act; and
(c) the value of an undisclosed asset located outside India.

Basis of charge:

The basis of charge under the Act is in respect of the *total undisclosed foreign income and asset* of the previous commencing on and from 1st April, 2015. The rate of *tax shall be 30% of the Value* of Assets taken at "*Fair Market Value*" determined as per Rules in the previous year in which such asset comes to the notice of Assessing Officer.

Computation of total undisclosed foreign income and asset:

- The tax under this Act is on gross basis and without any:
- No deduction of expenses and setoff of any losses;
- deduction for liability in relation to any foreign assets purchased;

However, if assessee furnishes evidence that any income which is assessable or assessed to tax in any previous year prior to 01.04.2015, shall not be added.

Computation strategy:

Computation of total Undisclosed foreign income and asset (UFIA)	Rs.
Income from source located outside India (foreign income or 'FI') which has not been disclosed in IT Return	XX
FI in respect of which no IT return has been filed	XX
Fair Market Value of UFA (no explanation or unsatisfactory explanation about the source of income has been provided) -manner of valuation to be provided	XX
Less	XX
Income which has been assessed to tax for any assessment year under the ITA prior to relevant AY in which UFIA applies	XX
Income which is assessable or has been assessed to tax for any assessment year	XX
In case of immovable properties, the deduction will be: Value of UFA in the same proportion as assessed / assessable foreign income bears total cost	XX
Total value of UFIA	XX
Tax @ 30%	

Example: A house property located outside India was acquired by an assessee in the previous year 2009-10 for fifty lakh rupees. Out of the investment of fifty lakh rupees, twenty lakh rupees was assessed to tax in the total income of the previous year 2009-10 and earlier years. Such undisclosed asset comes to the notice of the Assessing Officer in the year 2017-18. If the value of the asset in the year 2017-18 is one crore rupees, the amount chargeable to tax shall be A-B=C
where,
A=Rs.1 crore, B=Rs. (100 x 20/50) lakh= Rs.40 lakh, C=Rs. (100-40) lakh=Rs.60 lakh.

Penal provisions in brief:

Nature	Extent of Penalty	Prosecution (if any)
Attempt to evade tax, interest and penalty	300% of the Tax Payable	3 years - 10 years
Failure to disclose foreign asset or income in the return of income (Failure to report bank accounts with a maximum balance of upto Rs.5 lakh at any time during the year will not entail penalty or prosecution.)	Rs. 10 Lakh	6 months - 7 years

Attempt to evade payment of tax, interest and penalty	Amount of Tax arrear	3 months - 3 years
Subsequent offences under this Act- where a person commits the second (or subsequent) offence		3 years - 10 years Plus Fine Rs. 5 lac to Rs. 1 cr.
Person makes false statement or delivers false evidences		6 months - 7 years
Abetment to make and deliver false return, account, statement or declaration relating to tax payable		6 months - 7 years
If assessee fails to answer any question, sign a statement he is legally bound to or fails to produce books and supporting evidences		Rs. 50,000 to Rs. 2,00,000

Ref: For further studies refer to the Study Material.

VOL:2, No.:6
JUNE, 2017 ISSUE

Group - IV

PAPER : 17

CORPORATE FINANCIAL REPORTING (CFR)

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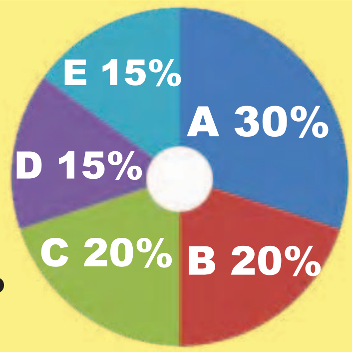
CMA

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

This paper is having a broad based content to cover many aspects of corporate financial reporting. Corporate financial reporting is becoming complex day by day as we are gradually shifting to rule based approach from principle best approach. The syllabus is well designed an it covers core aspect of financial reporting i.e. measurement of income and cash flow of along with reporting of financial position of the company. Furthermore, there is stress on supplementary disclosure aspects like value added statement, human resource accounting related reporting, sustain ability reporting etc. Overall, the paper is application oriented and demands high level of conceptual, analytical and application related skill from students. Accounting is core of this paper. Students not having accounting or commerce background should give special stress in this paper.

Accounting for fixed assets [Property, Plant and Equipment- Ind AS 16]

Introduction:

- Every entity requires various types of assets for conducting its operations. Depending upon the period of usage of the assets, they are broadly classified into two types – Current Assets and Non-current Assets. One of the most important components of the non-current assets happens to be the fixed tangible assets which benefit over multiple accounting periods. Recording and reporting of such fixed assets happen to be an important area of financial accounting.
- In India, the provisions regarding the accounting for fixed assets were dealt by Ind AS 16 **'Property, Plant and Equipment'.**``````````````````````````````````
- The assets reported as property, plant and equipment are described as long-lived, tangible assets. They are also described as fixed assets or as plant assets. Generally, the property, plant and equipment assets are reported at their cost followed by a deduction for the accumulated depreciation that applies to all of these assets.

Objective:

- The objective of this Standard is to prescribe the accounting treatment for fixed assets so that users of the financial statements can get the relevant information about investment made by an enterprise in its fixed assets
- The accounting treatment includes
  - the recognition of the assets;
  - the determination of their carrying amounts; and
  - the depreciation charges and impairment losses to be recognised in relation to them.

Applicability:

- This Standard should be applied in accounting for property, plant and equipment except when another Accounting Standard requires or permits a different accounting treatment.
- This Standard does not apply to:
  - **Biological assets:** It is related to agricultural activity other than bearer plants. This Standard applies to bearer plants but it does not apply to the produce on bearer plants; and
  - **Wasting assets:** It includes mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Important Terminologies related to Property, Plant and Equipment

- ***Biological Asset:***

  It is a living animal or plant.
- **Carrying amount:**

  It is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
- **Cost:**

  It is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Accounting Standards.

- **Depreciable amount:**

  It is the cost of an asset, or other amount substituted for cost, less its residual value.

- **Depreciation:**

  It is the systematic allocation of the depreciable amount of an asset over its useful life.

- **Enterprise -specific value:**

  It is the present value of the cash flows an enterprise expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

- **Fair value:**

  It is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

- **Gross carrying amount:**

  It refers to the cost of an asset or other amount substituted for the cost in the books of account, without making any deduction for accumulated depreciation and accumulated impairment losses.

- **Impairment loss:**

  It is the amount by which the carrying amount of an asset exceeds its recoverable amount.

- **Property, plant and equipment:**

  It refers to the tangible items that:

  - are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  - are expected to be used during more than a period of twelve months.

- **Recoverable amount:**

  It is the higher of an asset's net selling price and its value in use.

- **Residual value:**

  It is the estimated amount of an asset that an enterprise would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

- **Useful life**:

  It refers to:

  - the period over which an asset is expected to be available for use by an enterprise ; or
  - the number of production or similar units expected to be obtained from the asset by an enterprise

Recognition of fixed assets:

The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the enterprise; and
- the cost of the item can be measured reliably.

Note:

1. Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.
2. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of fixed tangible assets. Thus, judgement is required in applying the recognition criteria to specific circumstances of an enterprise.
3. An enterprise evaluates under this recognition principle all its costs on property, plant and equipment at the time they are incurred. These costs include costs incurred:

   (a) Initial Cost: It is the amount that has been incurred initially to acquire or construct an item of property, plant and equipment; and

   (b) Subsequent Cost: It is the amount that has been paid to add to, replace part of, or service it.

Measurement at Recognition:

An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost.

Elements of Cost:

- Its purchase price, including import duties and non –refundable purchase taxes,, after deducting trade discounts and rebates.
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'decommissioning, restoration and similar liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Measurement of Cost:

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised.

Measurement after Recognition:

An enterprise should choose either:

(a) the cost model; or

(b) the revaluation model.

(a) Cost Model:

After recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

(b) Revaluation Model:

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Depreciation:

- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.
- The depreciation charge for each period should be recognised in the statement of profit and loss unless it is included in the carrying amount of another asset.

Depreciable Amount and Depreciation Period:

- The depreciable amount of an asset should be allocated on a systematic basis over its useful life.
- The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

Depreciation Method:

- The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.
- The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate.
- A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method.

Impairment:

To determine whether an item of property, plant and equipment is impaired, an enterprise applies Impairment of Assets. Impairment is an accounting principle that describes a permanent reduction in the value of a company's asset, normally a fixed asset. When testing for impairment, the total profit, cash flow or other benefit that's expected to be generated by a specific asset is periodically compared with that same assets book value. If it's found that the book value of the asset exceeds the cash flow or benefit of the asset, the difference between the two is written off and the value of the asset declines on the company's balance sheet.

Retirements:

Items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down in this regard should be recognised immediately in the statement of profit and loss.

Derecognition:

- The carrying amount of an item of property, plant and equipment should be derecognised
  - a) on disposal; or
  - b when no future economic benefits are expected from its use or disposal.
- The gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognised. Gains should not be classified as revenue.
- However, an enterprise that in the course of its ordinary activities, routinely sells items of property, plant and equipment that it had held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets should be recognised in revenue.

Disclosure

General disclosure:

The financial statements should disclose, for each class of property, plant and equipment:

- the measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;
- the depreciation methods used;
- the useful lives or the depreciation rates used. In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions;
  - assets retired from active use and held for disposal;
  - acquisitions through business combinations ;
  - increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in revaluation surplus;
  - impairment losses recognised in the statement of profit and loss;
  - impairment losses reversed in the statement of profit and loss;
  - depreciation;
  - the net exchange differences arising on the translation of the financial statements of a non-integral foreign operation, The Effects of Changes in Foreign Exchange Rates; and
  - other changes.

Additional disclosure:

- the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- the amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- the amount of contractual commitments for the acquisition of property, plant and equipment;
- if it is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of profit and loss; and
- the amount of assets retired from active use and held for disposal.

Disclosure at the time of revaluation:

If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

- the effective date of the revaluation;
- whether an independent valuer was involved;
- the methods and significant assumptions applied in estimating fair values of the items;
- the extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and
- the revaluation surplus, indicating the change for the period andany restrictions on the distribution of the balance to shareholders.

Group - IV

PAPER : 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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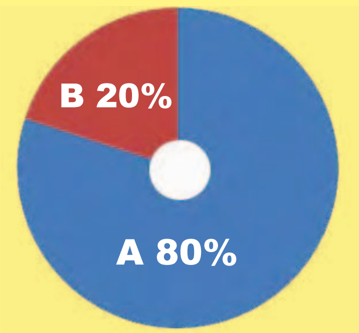
Your Preparation Quick Takes

Syllabus Structure

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

B Tax Practice and Procedures **20%**



Learning objectives:

- 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

REMOVAL OF CENVATED INPUTS & 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. Both manufacture of goods as-well-as rendering of services involve the utilisation of inputs and capital goods. However, many times, due to various reasons, the inputs and/ or capital goods acquired by an entity are required to be removed outside the premises of the manufacturer or service provider, as the case may be. In this section, the CENVAT Credit Rules regarding removal of the inputs and capital goods have been highlighted.

Removal of Inputs

- The provisions regarding removal of inputs provided under Rule 3(5) of the CENVAT Credit Rules, 2004
- As per the said Rule 3(5), if inputs, on which CENVAT credit has been availed, are removed 'as such' from the factory of manufacturer or premises of service provider, then in such a case, such manufacturer or service provider is required to reverse / pay an amount equal to CENVAT credit availed in respect of such raw material.
- In the case of Harsh International (Khaini) Private. Ltd. v. CCEx., it was held that remova; 'after use' is not removal 'as such'.
- Moreover, such removal of input is to be made under the cover of excise invoice.
- **Exceptional cases**: It is to be noted that such payment shall not be required to be made in the following two cases:
  - **Regarding manufacturer**: Where any inputs are removed outside the factory for providing free warranty for final products.
  - **Regarding service provider**: Where any inputs are removed outside the premises of the provider of output service for providing the output service.

Removal of Capital Goods

- Removal of Capital Goods is governed by Rule 3(5) and Rule 3(5A) of the CENVAT Credit Rules, 2004.
- The discussion on removal of capital goods can be discussed under three broad cases, namely:
  - When capital goods are removed 'as such' i.e. without using in manufacturing activity;
  - When capital goods are removed 'as waste and scrap':
  - When capital goods are removed after use 'as capital goods'.
- **When capital goods are removed 'as such'**: When capital goods (on which CENVAT credit has been availed) are removed 'as such' from the factory, or premises of the provider of output service, the manufacturer of the final products or provider of output service, as the case may be, shall pay an amount equal to the credit availed in respect of such capital goods.
- **When capital goods are removed 'as waste and scrap'**: When capital goods (on which CENVAT Credit has been availed) are cleared 'as waste and scrap', the manufacturer shall pay an amount equal to the duty leviable on transaction value.

NB: Capital goods which are removed after being destroyed are treated as being removed 'as waste and scrap' and treated accordingly.

- **When capital goods are removed 'after use as capital goods'**: If the capital goods (on which CENVAT Credit has been availed) are removed after being used, the manufacturer or provider of output services shall pay the higher of the amounts calculated under the following two alternatives:

A] Amount calculated by straight line method percentage points; and
B] Amount calculated on the basis of Transaction Value.

A] Amount calculated by Percentage Points under Straight Line Method (SLM): The amount determined under this alternative is as follows:

Nature of Capital Goods	CENVAT credit to be paid
Capital goods being 'Computers and Computer Peripherals'	CENVAT credit taken thereon *Less:* 2.5% of such credit taken calculated by SLM for each quarter of a year or part thereof from the date of taking the CENVAT credit. **NB**: ▪ No. of quarters = Date of Removal – Date of Taking Credit ▪ Date of Taking Credit = Date of taking the first credit.
Capital goods other than computers and computers peripherals	CENVAT credit taken thereon *Less:* Following percentage(s) of such credit taken: ▪ For each quarter in the first year @ 10% ▪ For each quarter in the second year @ 8% ▪ For each quarter in the third year @ 5% ▪ For each quarter in the fourth & fifth year @ 1%

B] Amount calculated on the basis of Transaction Value: Amount calculated on the basis of Transaction Value = Transaction Value x Rate of Duty.

- The amount of CENVAT credit to be paid on such removal = Higher of Alternative A or Alternative B.

- **Exception**: It is to be noted that such payment shall not be required to be made in the where any capital goods are removed outside the premises of the provider of output service for providing the output service.
- **Procedural provisions**: The following procedural provisions are required to be observed:
  - Removal of input/ capital goods shall be made under the cover of an invoice referred to in Rule 9.
  - The amount so paid under Rule 3(5) and 3(5A) shall be eligible as CENVAT credit to the buyer as if it was a duty paid by the person who removed such goods.
  - If such capital goods are cleared as such in the year of receipt, then full credit (i.e. 100%) credit is allowed in that year instead of the usual 50%. [*Proviso* to Rule 4(2)(a)]

<u>**Note to students**</u>: The illustrations relating to payment of CENVAT credit availed on the removal of inputs and capital goods will be covered in next edition.

Group - IV

PAPER : 19

COST & MANAGEMENT AUDIT (CMAD)

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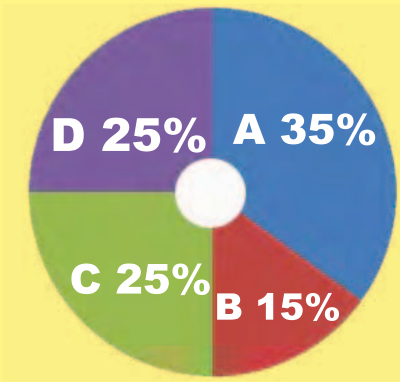
CMA

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

Introduction

The Institute of Cost Accountants of India (erstwhile The Institute of Coat and Works Accountants of India) was established by a special Act of Parliament on 28.05.1959 as a statutory professional body for the regulation of the profession of cost and management accountancy in the country. The Institute as on date has released 24 Nos. of Cost accounting standards to ensure to arrive at true and fair view of cost of production /service of a product / activity.

Out of the above the Cost Accounting Standard on Cost of Production for Captive consumption (CAS - 4) released on 3rd January 2003, with a view to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption for the purposes of Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, was well recognised by the Central Excise Deptt. The Department in exercise of powers conferred under Rule 31 of the Central Excise Rules, 2002. issued a Trade Notice No. 25/2003 dated 24.02.2003 (communicating Board's Circular No. 692/08/2003-CX (F.No. 6/29/2002-CX.I) dated 13.02.2003) wherein it has been clarified that the cost of production of captively consumed goods is to be done strictly in accordance with the Cost Accounting Standards, CAS-4, developed by the Institute of Cost and Works Accountants of India,as per the Appendix – I, to the Circular. The statement of Cost of Production prepared by a manufacturer in terms of CAS -4,has **to be certified by an independent Cost Accountant i.e a Cost accountant in practice.**

Key issues in CAS –4

While the CAS -4 imbibes the principles postulated in CAS 1, CAS 2 and CAS 3, which are general principles of costing, the understanding of following terms helps in verification and certification of CAS -4.

a. Cost of Production
b. Captive Consumption
c. Normal Capacity

Cost of Production :

Cost of production shall consist of Materials Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and development Cost, Packing cost, etc. The fixed production over heads and other similar item of fixed costs such as quality control cost, research and development costs, and administrative overheads relating to manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher. Further the adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc is to be done to arrive at cost of production of goods dispatched for captive consumption,

Captive Consumption:

Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s).

Normal Capacity

Normal capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

Periodicity of CAS - 4 Certification.

Central Board of Excise and Customs vide letter No. 206/01/2017-CX 6, dated 16th of February, 2017 (in supersession of Circular No. 692/08/2003-CX dated 13th February, 2003 have further clarified that cost of production of captively consumed goods shall be done strictly in accordance with CAS-4. And further directed that assessees should get CAS-4 certificate of the financial year ending on 31st March by 31st December of the next financial year. For example, for the Financial Year 2016-17, CAS-4 certificate should be obtained by 31.12.2017 and submitted to the assessing officer, who shall thereafter finalize the provisional assessment expeditiously.

Special Issues connected to CAS – 4 Certification

1. Absorption of overheads

Overheads shall be analysed into variable overheads and fixed overheads.

Variable Overheads are the items which change with the change in volume of production,
such as cost of utilities etc. Fixed overheads are the items whose value do not change with the change in volume of production such as salaries, rent etc.

The variable production overheads shall be absorbed in production cost based on actual
capacity utilisation. The fixed production overheads shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

2. Miscellaneous Income

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production.

3. **Inputs received free of cost**
In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

4. **Moulds, Tools, Dies & Patterns etc. received free of cost**
The amortization cost of such items shall be included in the cost of production.

5. **Interest and financial charges**
Interest and financial charges being a financial charge shall not be considered to be apart of cost of production.

6. **Abnormal and non-recurring cost**
Abnormal and non-recurring cost arising due to unusual or unexpected occurrence ofevents, such as heavy break down of plants, accident, market condition restricting salesbelow normal level, abnormal idle capacity, abnormal process loss, abnormal scrap andwastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormalcost shall not form the part of cost of production.

7. **Other Issues**
   a. In case the company is manufacturing and consuming the goods in differentvarieties and/or sizes etc., the cost of production for each of the variety / size should beworked out separately. Further in case of Multi location units, the Cost of Production is to be determinedseparatelyfor each unit and not for the Company as a whole.

   b. CAS 4 certification is applicable to all entities who are liable to pay excise duty and is clearing goods under Rule 8 of the Central Excise Valuation Rules for the purpose of captive consumption of such goods,irrespective of the constitution of the entity i.e. proprietorship, partnership or in co-operative sector or a SSI Unit.

Disclosure

a. If there is any change in cost accounting principles and practices during theconcerned period which may materially affect the cost of production in terms of comparability with previous periods, the same should be disclosed.

b. If opening stock and closing stock of work -in-progress and finished goods are notreadily available for certification purpose, the same should be disclosed.

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VOL:2, No.:6
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Group - IV

PAPER : 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Dr. Amalendu Bhunia
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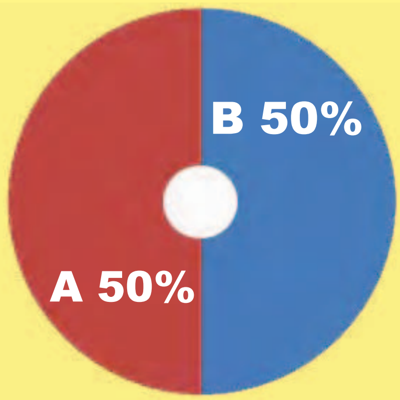
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

Motives of Merger and Acquisitions

Mergers and acquisitions are a widespread global event and it has appeared because the natural procedure of business restructuring all the way through the world. The last 25 years have observed widespread mergers and acquisitions as a strategic way for attaining sustainable competitive advantage in the business world. Nonstop growth and survival are the crucial goals of any business and merger and acquisitions is one of the shapes of survival tactic.

The general motive of all merger and acquisitions is the realisation of synergy gains. Synergy is accomplished while the value of the amalgamation of the two firms is greater than the total of the two separate values. The synergy of merger and acquisition is the value of the collective entity minus the fair value of the two firms as separate entities. An accurate assessment of synergies is essential to create a triumphant deal. The amalgamation of two entities will not generate value if the value of synergies is zero or negative. The fair value is the inherent value of the entity exclusive of any constituent of value happening from the anticipation of merger or acquisition. The gain in value of the collective entity is the present value of the synergy cash flows.

The synergistic gains by merger and acquisitions activity may ensue from more competent management, better production systems, economies of scale and capacity, amalgamation of matching resources, redistribution of assets to more gainful exercises, the use of market power or any number of value attractive methods that descend under the wide-ranging rubric of corporate synergy. There are five major kinds of corporate synergies, that is, manufacturing synergy, operations synergy, financial synergy, marketing synergy and tax synergy. The most important synergy gains can be operational or financial. This may obtain appearance of cost reductions and developments in operational effectiveness, revenue augmentations owing to optimization of the allocation system, augment in market power and different financial benefits, for instance, tax effectiveness and leverage. Operating synergies occur from better productive efficiency, which arise from enhanced operating profits. Productive efficiency can furthermore be accomplished by reducing the working capital in the course of savings in capital expenditures. Once the productive assets of the firms entail in merger and acquisitions are pooled, operating synergies are made and they are expected to augment the usual cash flows. By means of the discounted cash-flow model, this positive shock involves if the whole thing remains constant, a boost in the firm's value. Financial synergies occur from tax savings, decline of risk by diversification in a business takeover circumstance, insolvency risk reduce owing to the size effect, improved post-acquisition debt capability and lesser cost of capital. Financial synergies stimulate lesser weighted average cost of capital that causes an augment in the post-acquisition firm value.

Cost reductions of synergies can be accomplished from economies of scale and extent, prospects for removing reproduction facilities plus purposes as well as augmented negotiating power alongside suppliers. Synergies may furthermore stalk from involvement professional aptitudes and practices involving the two firms. As well, definite strategic advantages can be accomplished through acquisition of important technology, knowledge and skills, which can be applied in the pooled firm. Revenue augmentation takes place while the merged entity accomplishes higher sales growth than two individual companies. This can take place owing to additional rationalized product offerings as well as an improved allocation system. Also revenue augmentation enhances the market power and the removal of challengers. Diversified firms may generate purported domestic capital markets that set aside sharing resources between divisions without the hostilities and inefficiencies of non-internal ones. Additionally, acquisitions of foreign firms serve as a diversification medium enabling the expansion of the boundary of the acquirer which allows internalizing benefits that would be otherwise lost due to various market frictions. Besides, synergies may take place from enhancements in good corporate governance because the efficiency of governance methods diverges among firms. Corporate governance transmits influence merger synergies that are subsequently shared between the merging firms. This foundation becomes especially significant in global acquisitions because corporate governance patterns differ notably athwart diverse markets.

The executive motive of the mainstream of merger and acquisitions activities is to accomplish synergies and to make additional value to the new business. Though the most important prospective synergies are acknowledged before the contracts it does not assurance that these reviewed synergies are comprehended finally. Dilemmas take place whilst synergies will be set from idea to act. One of the causes are said to be excessively focus on tangible facets, the financials as well as the justifications of the contract and inadequate spotlight on the flexible parts of the amalgamation. But some of the most widespread mistakes done relating to merger and acquisitions entail the meaning of prospective synergies and the neglecting of chances within a logical time-frame in addition to misapprehensions of cultures and methods. Although the contract and the synergies are viable on document the mismatching befalls apparent while they are on to be comprehended (Cartwright, 2011; Eliasson, 2011; Ficery et al., 2007). Again, the human resources and culture matters are answerable to be the motives to why apprehension of synergies has such a lofty breakdown rate. Management is concerned in the overall arrangements and the strategic changes.

Synergistic gains are usually suggested since the key inspiration in the wake of merger and acquisitions activities. In the case of cross-border merger and acquisitions, value creation from gaining can effect from synergies accomplished in the course of the move of technology and skills from the acquirer to the goal. On the other hand, it must be recognized that the study of cross-border merger and acquisitions action has moreover been conversant by theories of foreign direct investment. In this situation, gains from captivating benefit of these flaws may come from decreased production costs or augmented market share rather than the formation and use of synergies. But the quality of corporate governance of target countries influences acquisition choices however the shock diverges across diverse geographical areas because bidders have a tendency to choose targets from countries with comparatively inferior investor protection signifying that these deals are focused by regulatory dissimilarities.

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

SUBMISSIONS

Dear Students,

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

Absolutely great learning from the e-bulletin provided by all of you!! Concepts became very clear after solving e- bulletin! The kind of questions contained by this bulletin is can be solved by the students acquainted with basic knowledge!! I hope that this service of providing bulletin to the students is great, it must continued in future!! Thanks

Manish Singh
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Updation of E-Mail Address/Mobile:

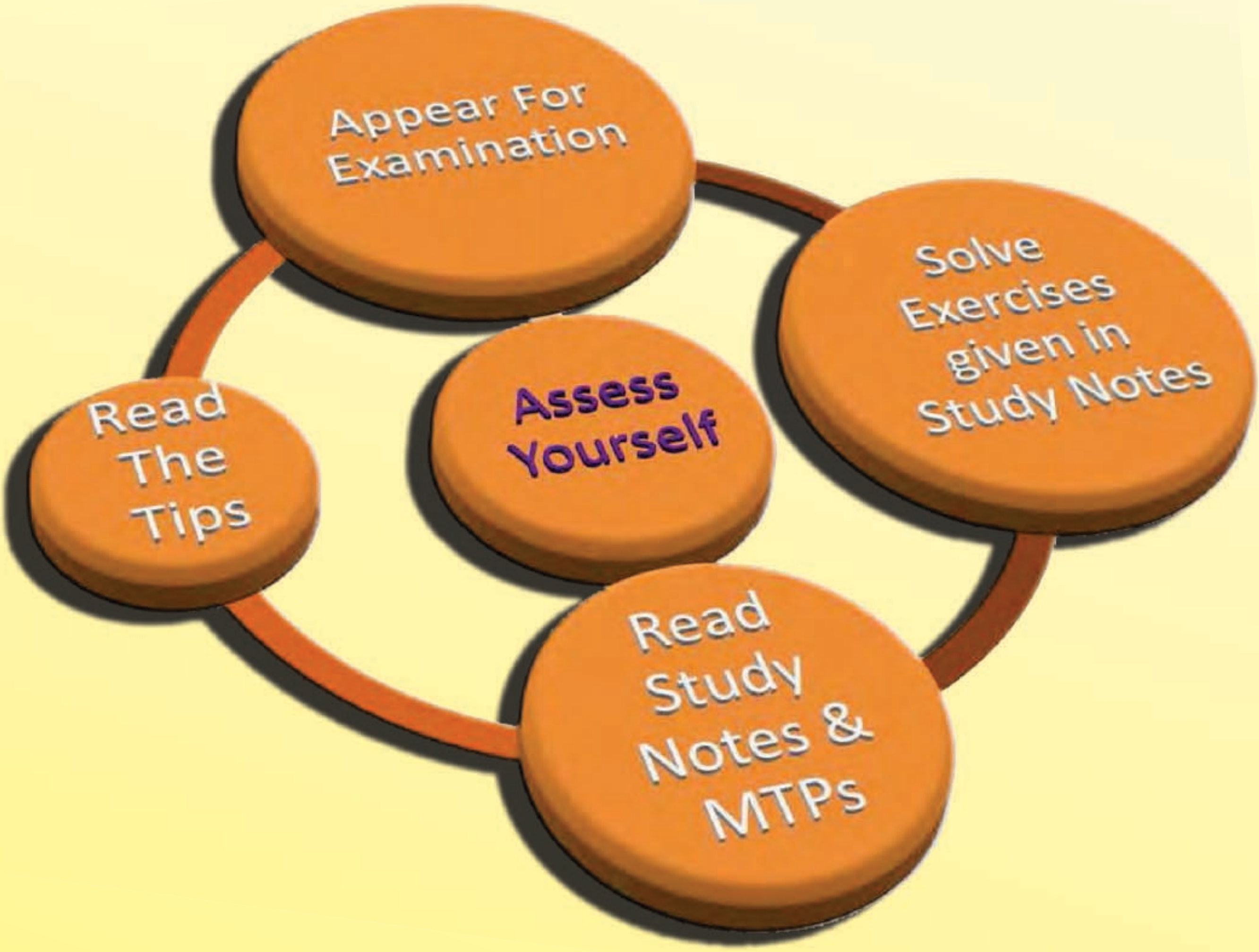
Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Student may update their E-Mail id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.

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

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

PRACTICAL ADVICE
ABOUT YOUR STUDIES - FINAL COURSE

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



Message from the Directorate of Studies

Dear Students,

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

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

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

Essentials for Preparation:

- Conceptual understanding & Overall understanding of the subject both should be clear.
- Candidates are advised to go through the study material provided by the institute in an analytical manner.
- Student should improve basic understanding of the subject with focus on concepts.
- 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;

Interview Tips

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01.00 Interview *With the right tips and techniques, you can become a master at sharing your value with potential employers, presenting yourself effectively at interviews, and getting the job you want.* In common parlance, the word "interview" refers to a one-on-one conversation with one person acting in the role of the interviewer and the other in the role of the interviewee. The interviewer asks questions and the interviewee responds. Interviews usually take place face to face and in person, although modern communications technologies such as the internet have enabled the conversations to happen through video conferencing, etc. Job interviews are conducted for the purpose of evaluating the suitability of the interviewee for a specific position.

With the right tips and techniques, you can become a master at sharing your value with potential employers, presenting yourself effectively at interviews, and getting the job you want.

Interviewing for a job can be nerve-wracking. You may feel uncomfortable "selling" yourself or fielding unexpected questions. Or the prospect of having to meet and impress new people may be enough to trigger anxiety. However, interviewing is a skill you can learn. With the right tips and techniques, you can become a master at sharing your value with potential employers, presenting yourself effectively at interviews, and getting the job you want.

02.00 Prepare, Prepare and Prepare

You've just landed a job interview for a position you really want. Congratulations. Now, you know you only get one chance to impress, but how exactly do you do that? Given all of the conflicting advice out there and the changing rules of getting a job, it's no wonder that job seekers are confused about how to best prepare for and perform in an interview.

Interviews range from conversations lasting a few minutes to several formal meetings, sometimes with more than one interviewer. Interviews allow you to demonstrate that you are the right candidate for the job.

Most people know they need to show up to the interview having done their homework, but the fact is,"Y'ou can never invest enough in terms of preparation".The better prepared you are, the more relaxed and comfortable you will be when the questions start coming your way.

02.01 Do your research

Gather information about the company and the position available. Try to specifically relate your experience to the duties the job opportunity entails.

02.02 Practice interviewing

Enlist a friend - better yet, a group of friends and colleagues - to ask you sample questions. Practice making eye contact.

02.03 Practice Positive Body Language

Pay attention to body language and verbal presentation. Eliminate verbal fillers, like "uh," and "um." Practice using positive body language to signal confidence, even when you're not feeling it. Instead of tentatively entering an interview with your head down and eyes averted, try standing tall with your shoulders back, smiling and maintaining eye contact, and delivering a firm handshake. It will make you feel more self-confident and help to put the other personat ease.

02.04 Handle logistics early

Have your clothes, resume, and directions to the interview site ready ahead of time, to avoid any extra stress.

02.05 Be in touch with your references

Don't let your references be the last to know about your job search, or even worse, get an unexpected call from a potential employer. Many offers are withdrawn over bad references. Why take that chance? Be in touch with your references right away to seek help and to avoid surprises on either side.

A few questions that you should ponder over:

Do your research

Practice interviewing

Practice Positive Body Language

Handle logistics early

Be in touch with your references

- Are your references relevant to your current job search? Who should you add or subtract?
- Are there any reference gaps? Gaps that an employer will question? What is your story about those gaps?
- Can a colleague, vendor, customer, or board member be added to replace or enhance the list?
- What is the current status of your relationship with your references?

03.00 Ace the first 30 seconds

First impressions matter. John Lees, a career strategist points to psychological research that shows that people form opinions about your personality and intelligence in the first 30 seconds of the interview. “How you speak, how you enter the room, and how comfortable you look are really important,” he says. People who perform best in interviews start off by speaking clearly but slowly, walk with confidence, and think through what “props” they will carry so they don't appear over-cluttered. Lees suggests rehearsing your entrance several times. You can even record yourself on video and play it back without the sound so you can see precisely how you are presenting yourself and make adjustments. The same applies to phone interviews. You need to use the first 30 seconds of the conversation to establish yourself as a confident, calm voice on the line.

04.00 Anticipate likely questions

Anticipate the likely questions and be prepared with answers. The following tips might help:

- Review your research about the company and the position.
- Make a list of key attributes for your desired job.
- Write sample interview questions that are likely to uncover the attributes you identified as important.
- Create answers to the sample interview questions based on a template such as “Situation – Action – Result” with specific details from your work experience.
- Practice answering the interview questions and follow-up questions so that you are very familiar with several detailed examples/stories. Rehearse key points.

05.00 Ask questions during the interview

Being prepared and asking great questions about the position and the employer shows your interest during the interview. You can't just be an effective responder. You need to assert yourself, too. By the time you reach the interviewing stage, you should be clear about what you want and what you offer to the company.

Try to be thoughtful and self-reflective in both your interview questions and your answers. Show the interviewee you know yourself—your strengths and your weaknesses. Be prepared to talk about which areas would present challenges and how you would address them. Admitting true areas of weakness is much more convincing than claiming: "I have what you need and I can do anything I put my mind to."

06.00 Use your EQ

Many of the interviewers tend to fall prey to unconscious biases and focus too heavily on experience rather than competence. It is your responsibility to ensure that it does not happen. It could be that it's not always the smartest person or the one with the most relevant skills that gets the job. Rather, the successful candidate is often the one who has the best “people skills”, who can relate easily to others. In other words, it's the person with a high emotional quotient (EQ).

Emotional Quotient is the ability to identify, use, understand, and manage emotions in positive ways to communicate effectively and empathize with others. If you have a high EQ you are able to:

- Recognize your own emotional state and the emotional states of others.
- Engage with people in a way that draws them to you.
- Pick up on emotional cues, communicate effectively, and develop strong relationships.

One way to apply emotional awareness in an interview situation is to find common human connections with the interviewer. If you set out with the intention to discover how you and the person interviewing you are connected and what you share, you will discover commonalities much faster. And the interviewing process will be much less intimidating because of it. Here follow some clues in this context.

06.01 Do your research

Google every person you know you are going to meet or think you might meet in the interview, especially senior executives. Learn what might be common areas of interest in advance.

06.02 Listen and pay attention

If you listen during the interview and look for commonalities, they will seem omnipresent. When your interviewer mentions his or her alma mater, weekend plans, kids, or favorite restaurant, you have the chance to ask questions and find common ground. You can also take a look around the office. Do you see a book you've read, a product you want or just bought, or a photo you like? If so, you have a means to discuss commonalities.

06.03 Lead with your interests and passions

How you introduce yourself and talk about yourself in the interview matters. If you integrate facts and interests into your spiel about yourself, then you create opportunities to connect. After the "What do you do?" or "Tell me about yourself" query, tell your story.

06.04 Find common ground in the context

Where you are meeting, your surroundings, and the purpose of your connection are all reference points. There is a reason why both of you find yourself at this unique place and time. Why are you both in this business? Do you know the any of the same people? While searching for commonalities, avoid pummeling your interviewer with a series of set questions. Let the interview happen naturally, but keep an eye out for hints of commonalities. Once you do, the world will feel like a smaller, friendlier place and your anxiety over interviewing will shrink.

07.00 When it's going poorly

There are times when it's clear the interview is not going well. Perhaps the interviewer is not engaged or you stumbled over answers to some important questions. Resist the temptation to agonize over what's already happened. "That's a surefire way to get lost," Lees says. Instead, focus on the moment. "Concentrate on answering the current question as if it's the first," he says. You can also redirect the conversation by acknowledging the situation. You might say something like, "I'm not sure if I'm giving you what you need" and see how the interviewer reacts. "You just have to be sure you aren't digging a deeper hole," says Lees.

08.00 Common Questions and Answers

Being well prepared for an interview will help you be confident and impress the interviewer(s).The key to a successful interview is adequate preparation. Most employers ask the same basic questions, so prepare answers before an interview. Below is a list of questions frequently asked by employers, with some ideas on how you might answer.

Avoid memorizing answers, but become confident about what you will say so that you can leave a positive first impression. Find someone to coach you through the questions—a friend, someone at the employment resource center, self-reliance center, or your ward or stake employment specialist.

08.01 Tell me something about yourself.

Develop a brief summary (two minutes or less) that includes positive work and volunteer habits. Use your "Me in 30 Seconds" statement along with "Power Statements" to answer.

08.02 What are some of your strengths? or Why should we hire you?

Know your strengths, and use your Power Statements to prove them. Tell how you can add value to the company and how you can help make or save money.

08.03 Why do you want to work for us? or What do you know about our company?

Do research before the interview in order to give an appropriate answer. Discuss how your skills would fill the needs of that company. Use a Power Statement.

08.04 What are some of your weaknesses?

Explain how you have turned perceived weaknesses into strengths. For example: "Some people say that I am too nice. But I have found that by being nice I am able to serve 14 percent more customers per shift, and I have 40 percent fewer complaints than my average co-worker."

08,05 What do you think of your present [or past] employer?

Never criticize your last company or boss. Always use positive terms. Try using a Power Statement for your previous employer.

08.06 What do you hope to be doing in five years?

Indicate how you hope to make a positive contribution to the employer's company. For example: "I'd like to be working for you in a position of responsibility." Use a Power Statement to describe how you plan to benefit the company.

08.07 What do you expect as a salary or compensation?

Avoid mentioning a specific salary. You may respond with:

- *What do you normally pay someone with my experience?*
- *What does your budget allow for this type of position?*
- *I know that I have to make you more money than it costs you to employ me. Let me first explain how I can do that. [Use a Power Statement.]*

Or you can ask to not discuss money until you find that you and the employer are a good match. Suggest that if you both find that you want to work together, then you can agree on a salary arrangement later.

08.08Do you have any questions for me?

Ask questions such as:

- *Where do you see this company in five years?*
- *What have been your experiences with this company?*
- *Why is this position open?*
- *Do you have any concerns about my abilities to do this job? Would you share them with me?*
- *What is your time frame for making a decision?*

09.00 Quick Take

Take on the interview with full steam; Sell yourself with ease; Be the Winner!

Resources

1. Researched inputs by the faculty of Shantiniketan Business School
2. Stand Out in your Interview, Amy Gallo, Harvard Business Review, 26th September 2012
   www.mindtools.com

www.icmai.in

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