VOL: 2, No.: 7
JULY, 2017 ISSUE

FINAL

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CMA STUDENTS' E - bulletin

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THE INSTITUTE OF COST 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 not preparation for life; education is life itself"- John Dewey
Hope you all have enjoyed the Global Summit 2017. You must admit that it was a great occasion of your Institute where the Hon'ble President of India with the Hon'ble Governor of W.B. and Hon'ble Union Minister of State for Finance and Corporate Affairs, has attended to encourage all of us. I am sure that no words can fully describe all the feelings you had on the day.

As I believe that life is like a camera; focus on what's important, capture the good times, develop from the negatives and if things don't work out take another shot, hence, my suggestion to all of you that-never give up because great things take time; and you really can do whatever you want. Start believing that ***'I do it because I can, I can because I want to, I want because you said I could not'.*** Difficult roads often lead to beautiful destinations. Enjoy life today. Yesterday is gone and tomorrow may never come & in your life you should never sacrifice three things; your family, your heart or your dignity.

Your first examination under syllabus 2016 is already over. Hope you did well and have started counting days for getting good news. If it is not as per the expectation then my suggestion is ***'Do not give up, the beginning is always the hardest'.***

E-bulletin helps you in your preparation and I have received information from many of you and I am sure that you must capture good things out of it. My sincere thanks go to all the eminent academicians who are constantly giving input for it. I must appreciate the effort of Directorate of Studies for timely running the issues.

'No amount of guilt can change the past and no amount of worrying can change the future'. Be Strong and Keep Moving............

Best wishes to all of you,

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

Be a CMA, be a Proud Indian

Message from the Chairman

Education is not filling the mind with a lot of facts. Perfecting the instrument and getting complete mastery of my own mind is the ideal of education-Swami Vivekananda

Dear Students,

I am sure that you must agree with me that only book-learning is not education. TThe perfect blending of knowledge and practical exposure can make you truly educated and you have to grow inside out. Education plays its continuous role in all spheres of life. When we are not making an effort to learn, our mind is always processing new information or trying to analyze the similarities as well as the tiny nuances within the context which makes the topic stand out or seem different. Education, if looked at beyond its conventional boundaries, forms the very essence of all our actions.

I feel that your journey with the Institute has started with a positive note and you should accomplish your study and reach your target in a desired way. Receiving a good education helps empower you, thus making you strong enough to look after yourself in any given situation. It keeps you aware of your given surrounding as well as the rules and regulations of the society you're living in. We are trying to impart you to the best possible manner and your duty is to learn at best.

Directorate of Studies are issuing this E-bulletin and I am sure that you are trying to utilise the opportunity at best. I am receiving positive feed-back from the students and requesting you further to enrich yourself by going through the Mock Test Papers / MTPs and to read carefully your study materials as well.

I am happy to know that you are very much delighted to see the august presence of the dignitaries in the Global Summit-2017 in Kolkata.

Education is not the learning of facts but the training of the mind to think-Albert Einstein
Wishing you a very bright career ahead,

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

Contents

Message from the President - i

Message from the Chairman - ii

Knowledge Update - 1

Group : III Paper 13: Corporate Laws & Compliance (CLC) - 2

Group: III Paper 14: Strategic Financial Management (SFM) - 5

Group: III Paper 15: Strategic Cost Management - Decision Making (SCMD) - 8

Group: III Paper 16: Direct Tax Laws and International Taxation (DTI) - 12

Group: IV Paper 17: Corporate Financial Reporting (CFR) - 15

Group: IV Paper 18: Indirect Tax Laws & Practice (ITP) - 20

Group: IV Paper 19: Cost & Management Audit (CMAD) - 24

Group: IV Paper 20: Strategic Performance Management and Business Valuation (SPBV) - 28

Submissions - 31

Practical advice - 32

Message from the Directorate of Studies - 33

Interview Tips - 34

CCI National Level essay competition 2017-18 - 35

Snapshots Global Summit 2017 - 36

14th National Awards 2016 - 37

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.

Group - III

PAPER : 13

CORPORATE LAWS & COMPLIANCE (CLC)

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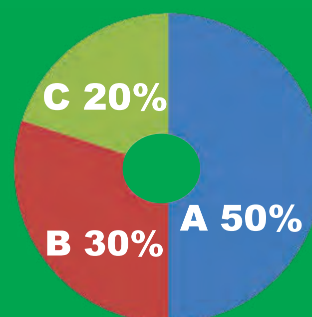
Your Preparation Quick Takes

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



Learning Objectives:

Read the Study Material minutely.

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

- **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.

<u>Winding Up (Section 270):</u>

➢ **Types of Winding up:**

1) **Voluntary winding up**:

- Any period fixed by articles or any event as occurred.
- Public notification within 14 days of passing of the resolution.
- Declaration of solvency- that company will be able to pay off its creditors within 3 years.
- Statement by the directors that dues will be paid in full.
- Commencement of winding up with the passing of resolution.
- Company not to carry on any business except for the beneficial winding up of the company. Corporate identity and powers shall continue.

2) **Compulsory winding up by court**:

Circumstances in which company can be wound up by the Court:

(a) The company by a special resolution has resolved to wind up.
(b) Default in delivering the statutory report.
(c) Company unable to pay its debts.
(d) Tribunal is of the opinion that it is just and equitable that the company should be wound up.
(e) The company has made a default in filing its Balance Sheet, Profit and Loss Account, Annual Return with the Registrar for five consecutive years.
(f) If the company has acted against the interests of the sovereignty, integrity and security of India, friendly relations with foreign states, public order, decency and morality.

➢ **Liquidator:**

Liquidator is the person responsible for the supervision of the entire process of winding up and appointed by the High Court.

On winding up order by High Court, the Official Liquidator will file the order with ROC and the company will cease to exist.

There can be dissolution without winding up in case of merger or amalgamation.

Company when deemed unable to pay its debts:

1) A creditor to whom the company is indebted to a sum in excess of Rs.1 lac has served a notice to the company for repayment and company has ignored the notice for a period of three weeks or more.
2) If execution or other process issued on a decree or order of any courting favor of a creditor of a company is returned unsatisfied whole or in part.

3) It is proved to the satisfaction of the CLB that the company is unable to pay its debts.

Application for winding up:

Application can be made by:

1) the company
2) any creditor or creditors
3) any contributory or contributories
4) By all or any of the parties mentioned above.
5) By the Registrar
6) In a case falling under section 243, by any person authorised by the Central Government in this behalf.
7) In a case falling under section 433(h) by Central Government or State Government.

Preferential payments(Section 327):

In case of a winding up the following payments will be made in priority to all other debts:

(a) all revenues, taxes, cess due from the company to Central Government, State Government, Local authority.

(b) all wages and salaries of any employee.

(c) All accrued holiday remuneration

(d) All dues payable by the company under the Employees' State Insurance Act

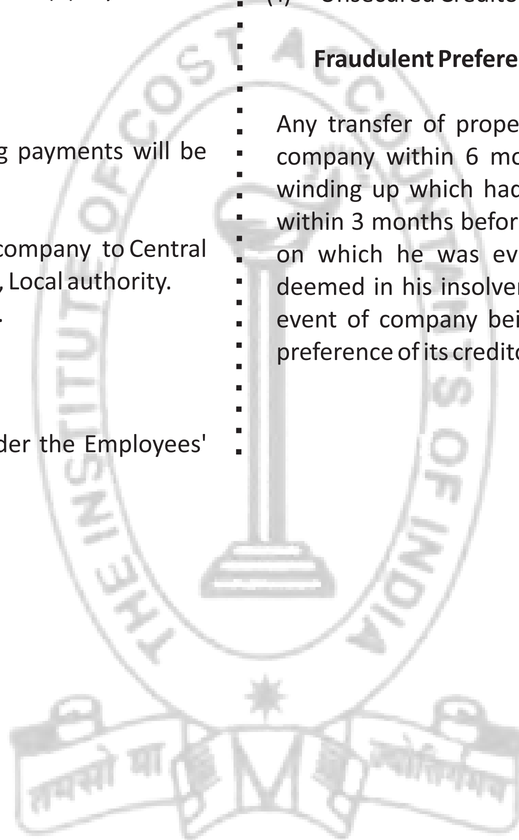
(e) All dues payable by the company under the Workmen's Compensation Act

(f) All sums due to any employee on account of provident fund, a pension fund, gratuity fund or any other welfare fund for employees.

(g) Any expense of investigation

(h) Secured Creditors.

(i) Unsecured Creditors.



Fraudulent Preference (Section 328):

Any transfer of property or any other goods by or against a company within 6 months before the commencement of its winding up which had been done by or against an individual within 3 months before the presentation of insolvency petition on which he was eventually adjudged insolvent would be deemed in his insolvency a fraudulent preference, shall in the event of company being wound up, be deemed a fraudulent preference of its creditors and be invalid accordingly.

Group - III

PAPER : 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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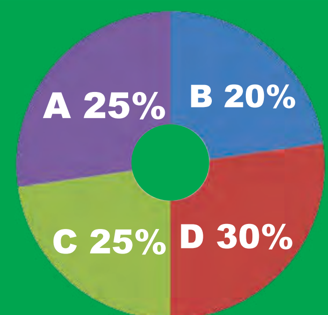
Your Preparation Quick Takes

Syllabus Structure

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



Learning objectives:

After studying this section on Strategic Financial Management, you will be able to:

- *understand the futures terminology*
- *cognize the valuation of futures contract*

Futures Terminology

- **Futures:** Futures are standardized exchange-traded contracts between two parties to buy or sell underlying asset within a future date at today's future price
- **Futures Price:** The price at which a futures contract is transacted in futures market is known as futures price.
- **Spread:** A spread position refers to the simultaneous purchase and sale of futures contract on the same underlying share or index but maturing in different months.
- **Basis:** The basis is defined as the difference between the spot and futures prices i.e., Basis = spot price of an asset – its related futures price [Hull (2009) P.51]. If the futures price is greater (less) than its related expected future spot price, the situation is known as Contango (Backwardation)

.

- **Contract Multiplier:** It denotes a number which is standard for a contract and defined by the exchange in the contract specification before the introduction of contract's trading.
- **Open Interest:** It denotes the number of matched outstanding futures contracts of same type for any particular underlying asset, that exist in the futures market at a particular point of time. It consists of open long positions paired with open short positions.
- **Marking-to-Market:** The daily calculation of pay-off of the futures contract is known as making-to-market.

Theoretical Price of Futures Contract

Theoretical price of futures contract implies the determination of its fair price. It has been seen from the literature that financial futures contracts are generally priced by cost–of–carry model.

Cash and carry arbitrage prevents futures prices from being above the theoretical price, while reverse cash and carry arbitrage prevents prices from dipping below the theoretical price. Together, it ensures that the futures price equals to the theoretical price.

There are several versions of theoretical price. However, the most general version is as follows: Theoretical price = Spot price plus net cost of carry. Here 'net cost of carry' refers to the net costs (apart from the spot price) incurred in undertaking cash and carry arbitrage or reverse cash and carry arbitrage. Accordingly, 'net cost of carry' equals to interest costs plus storage costs less dividend income. Since these cash flows take place at various points through the life of the contract, we must take time value into account. To be more precise, therefore, we must present value everything.

PV (fututrs price) = spot price + PV (storage costs) – PV (income)

$$PV(F) = S + U - I \text{ --------------(1)}$$

where F = futures price, S = spot price, U = Present value of storage costs and I = present value of the income from the asset. Interest cost disappears because it is subsumed while computing the present value of the futures price. Interest cost is in fact, equal to the difference between the futures price and its present value.

However, this expression is very general as it takes into account cash flows at the beginning or at the end, or at any time in between and it is rather inconvenient. If it is assumed that storage costs and income from assets are both evenly spread out over the life of the contract, a much simpler expression can be obtained which requires the use of continuous compounding.
Using continuous compounding Equation
(1) is rewritten as follows:

$$PV(F) = S + U - I$$

$$e^{-rt} F = S + U - I$$

$$F = e^{rt}(S + U - I) \text{-----------------(2)}$$

The above expression has been used under three different situations to price any futures contract.

Model I: Without Dividend

In this model it is assumed that the stock whose futures contract is to be priced pays either no dividend income or no dividend

yield and there is no storage cost. Therefore, the expression simplifies as follows:

$$F = S e^{rt} \text{ --------------(3)}$$

where F is current futures price, S is the spot price, r denotes risk free interest rate with continuous compounding and t is time of the futures contract expressed in year.

Model II : With Dividend Yield

If there is a continuous stream of income which occurs at a constant rate q as a fraction of the asset value, the income stream q offsets the interest cost and the net cost of carry is at the rate of r-q. in this case Equation 3 is modified to:

$$F = S e^{(r-q)t} \text{ --------------(4)}$$

where notations used here have their usual meanings.

Model III: With Dividend Income

Instead of dividend yield if it is expected that the underlying stock will generate different dividend incomes, .then the net payable for the stock will come down and naturally the formula for detraining the fair price of the stock futures will be revised. Let us assume that the spot price of the underlying stock is S and the present value of expected dividend incomes to be received from the stock during the life of its related stock futures contract is I. Therefore, the net payment to be made for the stock is (S - I) and accordingly the fair price of its futures contract is:

$$F = (S - I)\ e^{rt} \text{ --------------(5)}$$

where notations used here have their usual meanings.

Group - III

PAPER : 15

STRATEGIC COST MANAGEMENT - DECISION MAKING (SCMD)

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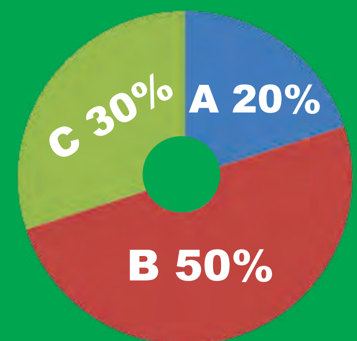
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

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

Exploring Life Cycle Costing

01.00 Concept

The concept of Life-Cycle Costing may be explored in relation to a product, project or an industry as such

02.00 Product Life Cycle

Many a product are observed to possess a distinctive life cycle comprising six clearly defined phases, each phase having its own characteristics. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched. The time line commencing from the innovation of a new product and ending with its degeneration into a common product and the eventual extinction is termed as the life cycle of a product.

(i) **Development Phase:** The cycle begins with the identification of a new consumer need and the invention of a new product. This is often followed by patent protection and further development to make it saleable. Research and engineering skills enable product development. The costs incurred are termed as developmental. No revenues accrue during this phase.

(ii) **Introduction Phase:** During this phase, the product is introduced to the market. Efforts are towards spreading awareness about the product, the target being achieving market acceptance. Promotional costs will be high, sales revenue low and profits probably negative. The skill that is exhibited in testing and launching the product will rank high in this phase as the critical factor in securing success and initial market acceptance. Sales of new products usually rise slowly at first.

(iii) **Growth Phase:** As the product gains market acceptance a rapid expansion follows leading to the growth. This phase is characterized by product penetration into the market and increase in sales & profits. Benefits of economies of scale would start pouring in leading to cost reduction. It now becomes vital to secure wholesaler and retailer support as also to ensure consumer satisfaction. If the product is successful, growth usually accelerates at some point, often catching the innovator by surprise.

(iv) **Maturity phase:** This stage begins after sales cease to rise exponentially indicating market saturation. Eventually most potential customers have tried the product and sales settle at a rate governed by population growth and the replacement rate of satisfied buyers. In addition there were no new distribution channels to fill. This is usually the longest and the most competitive stage in the cycle. Most of the popular products are in this stage. The period over which sales are maintained depends upon the firm's ability to stretch the cycle by means of market segmentation and finding new uses for it.

(v) **Decline phase:** Eventually most products and brands enter a period of declining sales. This may be caused by: technical advances leading to product substitution, fashion and changing tastes, exogenous cost factors reducing profitability

until it reaches zero at which point the product's life is commercially complete. The speed of degeneration differs from product to product.

(vi) **Extinction Phase:** This is the tail end of the decline phase where after the product exits from the market.

03.00 Product Life Cycle Costing

The Revenue, Cost and Profit Matrix of the Product Life Cycle is summarised in the table that follows.

Revenue, Cost and Profit Matrix of the Product Life Cycle

Serial	Phase	Revenue	Costs	Profit
1	Development	Nil	Developmental	Nil
2	Introduction	Low	Promotional	Negative
3	Growth	Increasing	Declining	Growing
4	Maturity	Stable	Stable	Stable
5	Decline	Declining	Increasing	Declining
6	Extinction	Nil	End Life	Negative

The product can sustain viability only if the total revenue arising from the product during its life cycle exceeds the total costs incurred during all the phases of its life. Life cycle costing is a system that is evolved to track and accumulate the costs and revenues attributable to a product or service from the stage of induction to the stage of extinction. In essence, Life Cycle Costing is a means of estimating all the costs involved in procuring, operating, maintaining and ultimately disposing a product throughout its life. Eventually, the process involves tracing costs and revenues of the product over several calendar periods.

CIMA defines Life-Cycle Costing as ' Maintenance of physical asset cost records over entire asset lives, so that decisions concerning the acquisition, use or disposal of assets can be made in a way that achieves the optimum asset usage at the lowest possible cost to the entity. The term may be applied to the profiling of cost over a product's life, including the pre-production stage (*terotechnology*), and to both company and industry life cycles'.

Life Cycle Cost (LCC) may, thus, be stated as"The total cost throughout the life of an asset including planning, design, acquisition and support costs and any other costs directly attributable to owning or using the asset". Life Cycle Cost (LCC) of any item represents costs of its acquisition, operation, maintenance and disposal.

Life cycle costing is a three-staged process. The first stage is life cost planning stage which includes planning LCC Analysis, Selecting and Developing LCC Model, applying LCC Model and finally recording and reviewing the LCC Results. The Second Stage is Life Cost Analysis Preparation Stage followed by the third stage of Implementation and Monitoring Life Cost Analysis.

Production Costs are accounted and recognized by the routine accounting system. However non-production costs like R&D, design, marketing, distribution, customer service, etc. are less visible on a product-by-product basis. Product Life Cycle Costing focuses on recognizing both production and non-production costs.

Product life cycle thinking can promote long-term rewarding in contrast to short-term profitability rewarding. It provides an overall framework for considering total incremental costs over the entire life span of a product, which in turn facilitates analysis

of parts of the whole where cost effectiveness might be improved.

Life Cycle Budgeting, i.e. Life Cycle Costing with Target Costing principles, facilitates scope for cost reduction at the design stage itself. Since costs are avoided before they are committed or locked in, the Company is benefited.

04.00 Project Life–Cycle Costing

Project life-cycle costing is a technique which takes account of the total cost of owning a physical asset, or making a product, during its economic life. The term 'Project Life-Cycle Cost' has been defined to include the costs associated with acquiring, using, caring for and disposing of physical assets, including the feasibility studies, research, design, development, production, maintenance, replacement and disposal, as well as support, training and operating costs generated by the acquisition, use, maintenance and replacement of permanent physical assets.

Project Life-Cycle Costs refer to life time costs relating to fixed assets, i.e., for capital equipment and so on. There are the costs that tend to remain fixed because of the decisions made in the nature of committed assets. By the end of the concept and definition phases of acquisition, more than half of the asset's life costs may be committed by decisions made with respect to asset features, performance, and reliability, technology, and support resources. By the end of design and development phases, even more of the asset's life costs may be fixed.

Early identification of acquisition and ownership costs enables the decision-maker to balance performance, reliability, maintainability, maintenance support and other goals against life cycle costs. Decisions made early in an asset's life cycle have a much greater influence on Life Cycle Costing than those made late in an asset's life cycle.

05.00 Industry Life-Cycle Costs

Over the long term, any industry must incur certain costs in order to find, develop and produce the product. This full set of costs the industry needs to incur in order to sustain or grow production is referred to as 'Industry Life-Cycle Costs' or Full Cycle costs".

If the prices are generally persisting above these Full Cycle costs, the industry has an incentive to sustain investment and activity in the sector. However, if the margin between Full Cycle costs and prices is squeezed for prolonged periods, the industry finds, before too long, that investment is not sustainable and capital spending, production and reserve replacement will begin to fall off as a result.

An understanding of what determines Full Cycle costs of an industry is central to predicting what is likely to happen to the product prices in the future, as well as understanding the outlook for the production, reserve replacement and capital spending in the industry, in climates of either falling or increasing prices.

At the industry level Life-cycle cost analysis (LCCA) may be considered as a tool to determine the most cost-effective option among different competing alternatives to purchase, own, operate, maintain and, finally, dispose of an object or process, when each is equally appropriate to be implemented on technical grounds.

For example, for a highway pavement, in addition to the initial construction cost, LCCA takes into account all the user costs, (e.g., reduced capacity at work zones), and agency costs related to future activities, including future periodic maintenance and rehabilitation. All the costs are usually discounted to a present-day value, generally, known as net present value (NPV). This example can be generalized on any type of material, product, or system.

06.00 Wrap Up

Life Cycle Costing aids decision makers in considering all present and future costs related to new construction, renovation, equipment replacement, or any other project that involves upfront and ongoing expenditure thereby covering the period from 'Cradle to Grave'.

Group - III

PAPER : 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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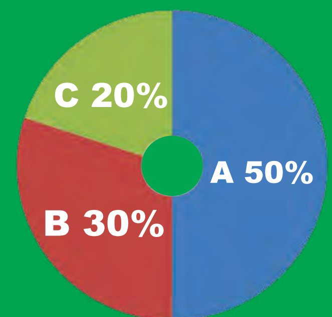
Your Preparation Quick Takes

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.

A. Taxability when no shares are involved: Students may recall that Gift tax has been withdrawn long ago. However, the ghost has been resurrected and in consequence, with effect from the Financial Year 2006-2007, The Taxation Laws (Amendment) Act, 2006 has inserted Section 56(2)(vi) to provide that where any sum of money exceeding Rs.50,000(previously Rs. 25,000) is received without consideration by an individual or a Hindu undivided family from a person on or after 1st April 2006, the whole of such sum shall be treated as the income of such individual or the Hindu undivided family. Further, with effect from 1.10.2009, with a view to widening the ambit of taxation, Finance (No. 2) Act, 2009 has inserted Section 56(2) (vii) to cover the receipt by an individual or Hindu undivided family of any immovable property or any other property exceeding a value of Rs. 50,000. The taxability of receipt of such immovable property or other movable property is over and above the cash receipt mentioned above and are subject to the following:

Nature of the receipt	Taxability
Cash receipt without any consideration [Sect ion 56(2)(vi)(a)]	Cash receipt up to Rs. 50,000 is exempt. For cash receipt exceeding Rs. 50,000, the entire sum is taxable. Multiple gifts coming under this clause to be aggregated to arrive at the limit of Rs. 50,000.
Immovable property [Section 56(2)(vi)(b)]	If without any consideration: If the stamp duty value of the property exceeds Rs. 50,000, the entire sum is taxable. If received for a consideration which falls short of stamp duly value by more than Rs. 50,000: The excess of the stamp duty value over the consideration received is taxable. Where the consideration or part of it is paid in a mode other than cash, and the date of agreement and the date of registration are different, it is the date of agreement which shall be taken into reckoning. Aggregation of multiple transactions not required under this clause. Each transaction is to be treated separately for arriving at the limit of Rs. 50,000.
Any other property [Section 56(2)(vi)(c) (i)]	If received without any consideration: If the fair market value of the property exceeds Rs. 50,000, the entire fair market value of the property is taxable.
Any other property [Section 56(2) (vi)(c)(ii)]	If received for a consideration winch falls short of the fair market value by more than Rs. 50.000: The excess of the fair market value over the consideration received is taxable. Multiple transactions are required to be aggregated to arrive at the limit of Rs. 50,000.

Exceptions:

The following are the exceptions to the aforesaid rules:

- **Gifts from any relative**: Any gift in cash or movable or immovable property
received from any relative is not taxable. **Gifts on the occasion of the marriage**: Any gift in cash or movable or immovable property
received on the marriage of the individual, whether from the specified relatives or other persons and irrespective of the quantum of value, is not taxable.
- **Gifts under a will or by way of inheritance**: Any gift received from any person under a will or by
way of inheritance, whether in cash or in kind, is not taxable.
- **Gifts in contemplation of death of the payer**: Any gift in cash or in property of any kind received
from any person (whether relative or not) in contemplation of the death of the payer is not taxable.
- **Sum received from specified institutions**: Any sum received from a local authority or from any fund or foundation or university or other educational institution or hospital or other medical institution orany other trust or institution referred to in Section 10(23C) or institution registered under Section 12AA.

Meaning of relative:

(A) In the case of an individual:
(i) spouse of the individual; (ii) brother or sister of the individual ; (iii) brother or sister of the spouse of the individual ; (iv) brother or sister of either of the parents of the individual ; (v) any lineal ascendant or descendant of the individual ; (vi) any lineal ascendant or descendant of the spouse of the individual ; (vii) spouse of the persons referred to in (ii) to (vi) above.
(B) In the case of a Hindu undivided family: any member thereof.

Meaning of property:

The expression "property" means :
(i) immovable property being land or building or both ;
(ii) shares and securities ;
(iii) jewellery ;
(iv) archaeological collections ;
(v) drawings ;
(vi) paintings ;
(vii) sculptures ;
(viii) any work of art ; or
(ix) bullion

B. Taxability of shares received for inadequate or without consideration :

With effect from the assessment year 2010-11, the scope of Section 56(2) has been widened to bring withinits ambit transactions undertaken in shares of a company (not being a company in which the public aresubstantially interested) where the recipient is a firm or a company (not being a company in which thepublic are substantially interested). Accordingly, a new clause (viia) has been inserted with effect from 1st June 2010 so as to include in the taxable income of the aforesaid assessees the following amounts :
(a) Where the transaction is without considerationand the aggregate fair value of the shares so transferredexceeds Rs. 50,000, the whole of the aggregate fair value of the shares.
(b) Where the transaction is for a considerationwhich is less than the aggregate fair value of the shares sotransferred by an amount exceeding Rs. 50,000, the excess of the aggregate fair value of the shares overthe consideration so paid.

Exceptions :

The aforesaid provisions shall not apply to the following cases where :
(a) the transfer of shares is made pursuant to a scheme of amalgamation referred to in Section 47(via) orSection 47(vii) ; or
(b) the transaction is made in a demerger referred to in Section 47(vic) or Section 47(vid) ; or
(c) the transaction is made pursuant to a business reorganisation referred to in Section 47(vicb).

Group - IV

PAPER : 17

CORPORATE FINANCIAL REPORTING (CFR)

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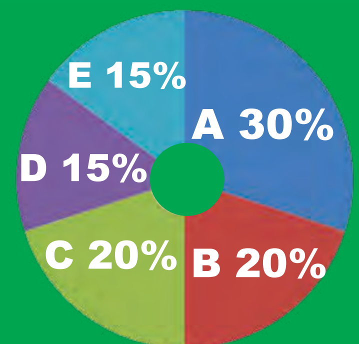
Your Preparation Quick Takes

Syllabus Structure

A GAAP and Accounting Standards **30%**
B Accounting if Business 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.

Reporting through XBRL

Concept of XBRL:

- The information of a multinational is to be presented through the different components of Financial Statement to its stakeholders.The language of such financial information in modern days needs a communicating method which is known as XBRL (**eXtensible Business Reporting Language**). **XBRL** is a freely available and global standard for exchanging business information. It allows the expression of semantic meaning commonly required in business reporting. The language of XBRL is XML-based and uses the XML syntax and related XML technologies such as XML Schema, XLink, XPath, and Namespaces. The Specification of XBRL is developed and published by XBRL International.

- XBRL is the future of financial reporting. It is a standards-based way to communicate and exchange business information between business systems. These communications are defined by metadata set out in taxonomies, which capture the definition of individual reporting concepts as well as the relationships between concepts and other semantic meaning. Information being communicated or exchanged is provided within an XBRL instance.

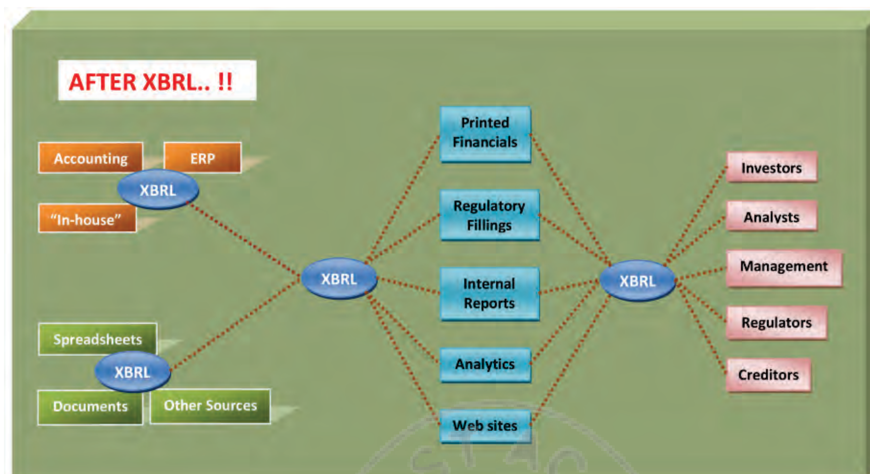
- Early users of XBRL included regulators such as the U.S. Federal Deposit Insurance Corporation and the Committee of European Banking Supervisors (CEBS). Common functions in many countries that make use of XBRL include regulators of stock exchanges and securities, banking regulators, business registrars, revenue reporting and tax-filing agencies, and national statistical agencies.

- The use of this language is increasing day by day. In the last decade, the Securities and Exchange Commission (SEC) in the United States, the United Kingdom's HM Revenue and Customs (HMRC), and Companies House, Singapore had begun to require companies to use it, and other regulators were following suit. Development of the SEC's initial US GAAP Taxonomy was led by XBRL US and was accepted and deployed for use by public companies in 2008 in phases, with the largest filers going first: foreign companies which use International Financial Reporting Standards (IFRS) are expected to submit their financial returns to the SEC using XBRL once the IFRS taxonomy has been accepted by the SEC. In the UK in 2011, both HMRC and Companies House accepted XBRL in the iXBRL format. XBRL was adopted by the Ministry of Corporate Affairs (MCA) of India for filing financial and costing information with the Central Government.

- XBRL is today used for multiple purposes, some of which include:

  - Accounting (individual transactions tagged with XBRL Global Ledger);
  - Internal Reporting (for drafting of management reports);
  - External Reporting (for drafting of financial statements, regulatory reports, corporate tax filings, statistical reports etc.)

- The process of XBRL has been explained below:



- XBRL is a standard that was developed to improve the way in which financial data is communicated, making it easier to compile and share this data. XBRL is a type of XML (extensible markup language), which is a specification that is used for organizing and defining data. XBRL uses tags to identify each piece of financial data, which then allows it to be used programmatically by an XBRL-compatible program.

- In a nutshell, XBRL provides a language in which reporting terms can be authoritatively defined. Those terms can then be used to uniquely represent the contents of financial statements or other kinds of compliance, performance and business reports. XBRLlets reporting information move between organisations rapidly, accurately and digitally.

Features of XBRL:

1. **Clear Definitions:** XBRL allows the creation of reusable, authoritative definitions, called taxonomies, which capture the meaning contained in all of the reporting terms used in a business report, as well as the relationships between all of the terms. Taxonomies are developed by regulators, accounting standards setters, government agencies and other groups that need to clearly define information that needs to be reported upon. XBRL doesn't limit what kind of information is defined: it's a language that can be used and extended as needed.
2. **Testable Business Rules:** XBRL allows the creation of business rules that constrain what can be reported. Business rules can be logical or mathematical, or both and can be used.
3. **Multi-lingual Support:** XBRL allows concept definitions to be prepared in as many languages as necessary. Translations of definitions can also be added by third parties. This means that it's possible to display a range of reports in a different language to the one that they were prepared in, without any additional work. The XBRL community makes extensive use of this capability as it can automatically open up reports to different communities.
4. **Strong Software Support:** XBRL is supported by a very wide range of software from vendors large and small, allowing a very wide range of stakeholders to work with the standard.

Application of XBRL:

XBRL is the open international standard for digital business reporting, managed by a global not for profit consortium, XBRL International. It helps in improving the reporting in the public interest. XBRL is used around the world, in more than 50 countries. Millions of XBRL documents are created every year, replacing older, paper-based reports with more useful, more effective and more accurate digital versions.It can be applied to a very wide range of business and financial data. Among other things, it can handle:

- company internal and external financial and business reporting;
- business reporting and exchange of information within all types of regulators, including tax and financial authorities, central banks, and governments;

- filing of loan reports and applications;
- credit risk assessments;
- authoritative accounting literature, providing a standard way of describing accounting documents provided by authoritative bodies.

Benefits of XBRL:

Users of financial statements are delighted to receive information in XBRL format because:

- They receive reliable/accurate data that they do not need to validate;
- They receive the benefit of immediate analysis and insight without having to wait for filings;
- Retail investors at home benefit from "analysis" that is currently available only to professional investors in mutual funds;
- Professional investors benefit from lower costs associated with gathering, aggregating and analyzing data and the higher reliability of data so they can cover more stocks;
- Corporate finance professionals like dissemination of financial statements in XBRL format because it:
    - provides quick and accurate understanding of financial performance in the capital markets,
    - eliminates "noise" and
    - facilitates speedy discovery of share prices
- Large corporations benefit from an increase in the number of analysts covering the stock.
- Smaller corporations (competing for analyst attention) benefit by jumping ahead in the queue and getting analyst coverage by providing interactive data.

Process for preparing XBRLReporting:

A firm should take the following steps to create a strong process for the preparation of XBRL documents:

- Educate management that ownership of XBRL submissions belongs to the company, not the outsourcer.
- Educate management that this is an accounting and reporting process, not an IT process.
- Make clear assignment of responsibility, for example, to the controller's office, external reporting team, etc.
- Use consultants to assist with complex technical issues even if preparation is in-house rather than outsourced.
- Prepare a detailed plan that enables preparation to occur in lock step with the manual filing process.
- Establish and monitor controls over both internal and external processes.
- Provide adequate training to internal experts especially if preparation is inhouse.
- Start early and conduct a practice preparation before the first submission.
- Have more than one internal expert involved in the mapping and review processes and do not rely solely on software validation.
- Validate at all stages of the process to avoid compounding errors and test XBRL documents before submission using the SEC Previewer and validation software.
- Allow adequate time for final changes and reviews, especially if you expect last-minute changes in the manual documents before submission.
- Document the XBRL process and choices carefully, especially the basis for mapping accounting concepts to particular elements.
- Finally, be prepared for increased effort when the company begins submitting detailed coding of footnotes, which will more than double the number of financial statement concepts and corresponding XBRL elements.

XBRL IN INDIA

- The XBRL global initiative is led by a non-profit organisation called XBRL International Inc. (XII), which has members from various agencies from more than 164 countries. In India, the Ministry of Corporate Affairs (MCA) has switched over its reporting format to XBRL for Annual Report and Cost Audit report filings. The Reserve Bank of India (RBI) has also moved to XBRL reporting for the Banking Industry while the Securities & Exchange Board of India (SEBI) has mandated reporting by Mutual Funds though XBRL mode. The responsibilities of forming a XBRL national jurisdiction and the implementation of the standards for financial reporting in India have been entrusted to the Institute of Chartered Accountants of India (ICAI).
- XBRL adoption is widespread in India, with the Ministry of Corporate Affairs (annual report and cost audit report filings), the

Reserve Bank of India and the Securities and Exchange Board (mutual funds) also having XBRL reporting mandates. The implementation and regulatory framework of XBRL in India is governed by these regulatory agencies.

Before the issuance of Companies Act, 2013

In India, the Ministry of Corporate Affairs (MCA) for the first time made it mandatory for certain class of companies to file their Balance Sheets and Profit and Loss Account for the year 2010-11 onwards by using XBRL taxonomy by issuing Circular No. 16/2012 dated 6.7.2012. As per the **Companies (Filing of documents and forms in Extensible Business Reporting Language) Rules, 2011**, the following classes of companies were required to file the Financial Statements in XBRL Form only from the year 2010-2011:

(i) All companies listed in India and their subsidiaries;
(ii) All companies having a paid up capital of Rs. 5 crore (Rs 50 million) and above; or
(iii) All companies having turnover of Rs. 100 crore (Rs. 1 billion) or above, excluding power and banking companies, insurance companies, Non-Banking Financial Companies and overseas subsidiaries of these companies.

The circular also contained, by way of an annexure, a host of valuable information about XBRL in the form of Frequently Asked Questions (FAQs) about XBRL. As per the said circular, taxonomies for Indian companies are developed based on the requirements of Schedule VI of Companies Act, Accounting Standards, SEBI Listing requirements, etc. Taxonomies for manufacturing and service sector (referred as Commercial and Industrial, or C&I) and banking sector, is acknowledged by XBRL International. The Institute of Chartered Accountants of India (ICAI), the standards setting body developed taxonomy for Commercial and Industrial companies as per the provisions of Revised Schedule VI to the Companies Act, 1956. It has been developed as per the IFRS architecture 2011.

After the issuance of Companies Act, 2013

In exercise of the powers conferred by sections 469(1) and 469(2) read with section 398 of the Companies Act, 2013, and in supersession of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, except as respects things done or omitted to be done before such supersession, the Central Government issued the **Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015** on 09.09.2015.

Companies required to followXBRL Reporting:

The following class of companies shall file their financial statement and other documents under section 137 of the Companies Act, 2013, with the Registrar in e-form AOC-4 XBRL given in Annexure-I for the financial years commencing on or after April 1, 2014 using the XBRL taxonomy given in Annexure II, namely:

(i) all companies listed with any Stock Exchange(s) in India and their Indian subsidiaries; or
(ii) all companies having paid up capital of rupees five crore or above;
(iii) all companies having turnover of rupees hundred crore or above; or
(iv) all companies which were hitherto covered under the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011.

Companies exempt from XBRL Reporting:

As per the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015 the following companies are exempt from XBRL filing of their financial statement and other documents:

(i) Banking companies
(ii) Insurance companies
(iii) Power Sector companies; and
(iv) Non-Banking Financial companies.

Group - IV

PAPER : 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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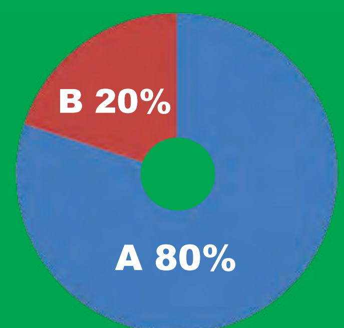
Your Preparation Quick Takes

Syllabus Structure

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

B Tax Practice and Procedures **20%**



Learning objectives:

After studying this section, you will be able to:

- Recall the concept of removal of inputs and capital goods under Rule 3(5) and Rule 3(5A);
- Cognize the practical application of Rule 3(5) and Rule 3(5A);
- Ascertain the amount payable on removal of inputs and 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 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 the previous edition, the CENVAT Credit Rules regarding removal of the inputs and capital goods were highlighted.

Removal of Inputs & Capital Goods

- Removal of Inputs and Capital Goods are governed by Rule 3(5) and Rule 3(5A) 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.
- 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'. (Refer to the CMA students' E-Bulletin Final Vol. 2 No.6 June 2016 Issue for detailed discussion)

Case Studies on Removal of Inputs

Illustration 1

PVR Ltd., a manufacturer had procured some inputs in May 2016 for Rs. 34,00,000. Duty paid on the inputs was Rs. 3,46,000, and such duty was immediately availed of as CENVAT credit. He was unable to use the inputs in view of change in market conditions. He sold the inputs in February 2017 for Rs. 28,80,000. What is the amount of duty that the assessee is required to pay while clearing these inputs?

Solution: In this case, the inputs have been removed 'as such'.
Hence, as per Rule 3(5) of the CENVAT Credit Rules, 2004,
Amount payable on removal = CENVAT credit availed in respect of such raw material = Rs. 3,46,000.
NB: Actual sale price of such inputs are irrelevant for this purpose.

Illustration 2

Vardhan Ltd., a manufacturer of pipes, has a factory at Surat. It purchased plastic inputs valued Rs. 2,28,000 (inclusive of central excise duty Rs. 28,000) for manufacture of plastic pipes. It availed CENVAT credit of excise duty of Rs. 28,000 paid on the said inputs. It subsequently cleared the said inputs as such from the factory in the following manner:

- *Sales to Durga Ltd. (Purchase price Rs. 60,000)* — *Rs. 85,000;*
- *Sales to Pioneer Trading Co. (Purchase price Rs. 20,000)* — *Rs. 30,000;*
- *Clearance to Vardhan Ltd.'s own factory at Jodhpur (Purchase price Rs. 1,20,000)* — *Free of cost*

You are required to ascertain the amount of CENVAT credit to be reversed on such removal of inputs by Vardhan Ltd.

Solution: In this case, the inputs have been removed 'as such'. Hence, as per Rule 3(5) of the CENVAT Credit Rules, 2004, Amount payable on removal = CENVAT credit availed in respect of such raw material.
Vardhan Ltd. has removed the entire inputs purchased, and so the total excise duty paid Rs. 28,000 has to be reversed. The amount payable on each removal is as follows:

Particulars	Rs.
Sales to Durga Ltd. [CENVAT credit Rs. 28,000 x 30% of inputs]	8,400
Sales to Pioneer Trading Co. [CENVAT credit Rs. 28,000 x 10% of inputs]	2,800
Clearance to Vardhan Ltd.'s own factory at Jodhpur [CENVAT credit Rs. 28,000 x 60% of inputs]	16,800
∴ Total amount payable under Rule 3(5)	28,000

NB:

- Actual sale price of such inputs are irrelevant for this purpose.
- Separate invoices are required to be raised for each of these removals.

Illustration on Removal of Capital Goods

Illustration 3

Rupa Ltd., purchased a packing machine at a cum-duty price of Rs. 18,63,680 (including excise duty of Rs. 2,63,680 @ 16.48%). The machine was purchased on 1.7.2014 and was disposed of on 30.9.2016 for a price of Rs. 12,00,000 in working condition as a second hand machine.

You are required to calculate:

(i) The amount of CENVAT credit allowable in the financial years 2014-15 and 2015-16; and

(ii) The amount payable towards CENVAT credit already taken at the time of disposal of the machinery.

Solution:

(i) CENVAT credit allowable acquisition of capital asset

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. 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, the balance CENVAT credit can be taken.

(ii) Amount payable on Removal of capital asset

	For first 50%	For balance 50%
(a) Credit taken (Rs. 2,63,680 x 50%)	Rs. 1,31,840	Rs. 1,31,840
(b) Date of taking credit	01.07.2014	01.04.2015
(c) Date of Removal	30.09.3016	30.09.3016
(d) No. of quarters or part thereof [Gap between (b) and (c)]	9	6
(e) Percentage eligible @ 2.5% per quarter [2.5% x (d)]	22.5%	15%
(f) Credit reversible [100% - (e)]	77.5%	85%
(g) Amount to be paid [(a) x (f)]	Rs. 1,02,176	Rs. 1,12,064

Rupa Ltd. 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.

In this case,

[A] Amount calculated by straight line method percentage points = Rs. (1,02,176 + 1,12,064)
= Rs. 2,14,240; and

[B] Amount calculated on the basis of Transaction Value = Rs. 12,00,000 x 16.48%
= Rs. 1,97,760.

Amount payable under Rule 3(5A) = Higher of Alternative A or Alternative B = Rs. 2,14,240.

Group - IV

PAPER : 19

COST & MANAGEMENT AUDIT (CMAD)

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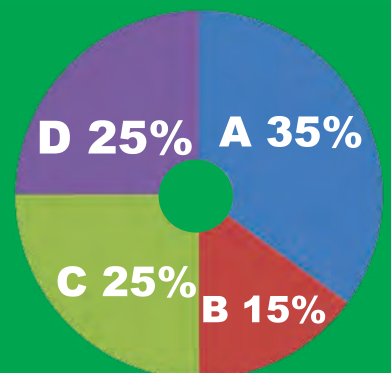
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

Management Audit

Management Audit is an assessment of methods and policies of an organization's management in the administration and the use of resources and technical availability, tactical and strategic planning, and employee with the aim to organizational improvement.
Clarification:

Management Audit is a systematic examination of decisions and actions of the management to analyse its performance as a whole. Management audit involves the review of managerial aspects like organizational objective, policies, procedures, structure, control and system in order to check the efficiency or performance of the management. Unlike financial audit, management audit mainly examine the non financial data to audit the efficiency of the management. Somehow audit tries to search the answer of-
2. How well the management has been performing the business of the company?
2. Is managerial style well fitted to business operation?
Management Audit focuses on results, evaluating the effectiveness and suitability of controls by challenging underlying rules, procedures and methods.

Objectives of Management Audit

1. Establish the current level of efficiency
2. Suggest Improvement of efficiency
3. Lay down standards for future performance base
4. Increased levels of service quality and performance base
5. Guidelines for organizational restructuring ideas
6. Introduction of management information systems to assist in meeting productivity and effectiveness of organizational goals
7. Better use of resources in compilation with program improvements.

Scope of Management Audit

Management audit may cover a specific functional area or all the functional areas such as. Sales, Inventory, Production, Purchase, Personnel, Finance, Administration, etc.
In management audit, experts from various fields –

- examine the organizational structure, Plans and Objectives, Policies, Systems and Procedures, Methods of control, Standards fixed for performance and the method of evaluation of results.
- report on the defects, weaknesses and irregularities observed by them during their examination.
- make suggestions to improve the efficiency and performance of the management.

What is the difference between Financial Audit and Management Audit?

Financial Audit vs Management Audit Definition	
A financial audit is an audit conducted to present an opinion whether the company financial statements reflect a true and fair view.	Management audit is a systematic evaluation of capabilities of the company's management with regard to effectiveness in achieving the strategic objectives of the company and quality of decision making.
Nature of Audit functioning	
A financial audit is quantitative in nature as it only evaluates the financial information.	Management audit is a qualitative audit that assesses both financial and non-financial information.
Party Involving in the Audit Procedure	
Financial audit is conducted by the external auditor.	An employee of the company or an independent consultant conducts the management audit.
Point of time of Audit	
Financial audit is conducted at the end of each financial year.	Management audit is conducted when the company is on the verge of a change in strategic direction.

Audit Procedure

Generally auditor deploys following audit procedures to conduct the management audit.

1. Questionnaire
2. Interview with employee and managers

Advantages of Management Audit

1. Management audit helps in decision making areas such as make or buy, closing down of an unit or going on, acquisition of a business, etc.
2. It also helps in assessing the efficiency of the executives of the company. It serves as a moral check on the executives.
3. Management audit suggests the ways to utilize the resources of the organization effectively.
4. Management audit helps in rehabilitation of sick units.
5. Management audit report is jointly reported by experts & operational management of various fields.
6. The opinions and suggestions of a group of experts on the functioning of the organization are possible only through management audit.

Disadvantages of Management Audit

1. Management audit involves high cost and it is suitable only to big organizations.
2. Management audit may create a fear in the minds of the executives and may curb their initiative and innovation.
3. The management auditor may lack independence and may simply take instructions from the top management.

However, an organization can utilize management audit effectively to improve its various functional areas.

Inspection, Compliance Auditing and Management Auditing

Three basic evaluation methods exist for any activity: inspection, compliance auditing and management auditing. The first method, inspection, measures a process of output against certain characteristics. These characteristics, generally identified as form, fit and

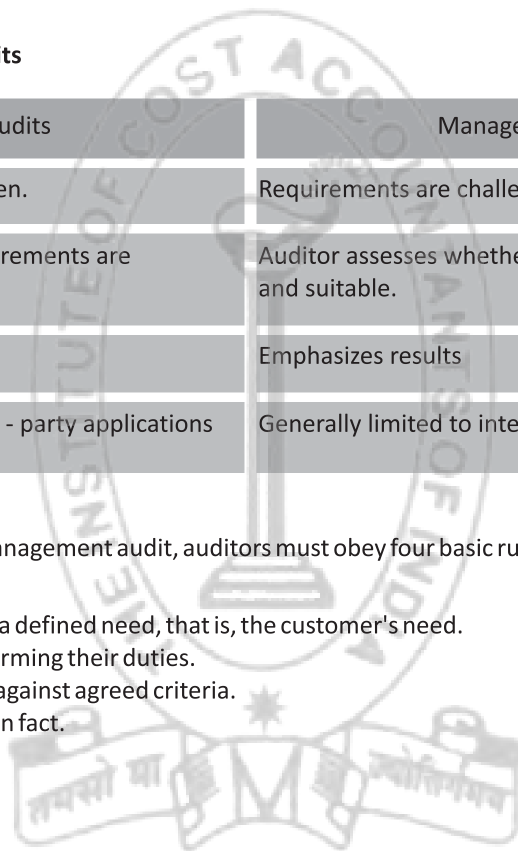
function, are specified, and the process output either possesses those characteristics or it doesn't. As a result, an inspection's outcome is always binary: pass or fail (Denis R. Arter).

In contrast, compliance audits check on the implementation of written manuals, procedures and work instructions. The compliance audit evolved in the 20th century as business practices became more complex. The first use of compliance auditing appeared in financial transactions, because tax collectors and bank examiners needed assurance that the financial data were correct. This concept of verifying compliance was picked up by the quality profession in the 1960s and applied to the military and the nuclear power industry. Compliance audits are still used in high-risk activities, where there is a desire to verify that the activities are being performed in strict compliance to approved requirements. Third-party registration audits, regulatory inspections and most supplier audits measure compliance. The application of a compliance audit results in stability and assurance that rules are being followed.

The management audit is a more recent concept. It focuses on results, evaluating the effectiveness and suitability of controls by challenging underlying rules, procedures and methods. Management audits, which are generally performed internally, are compliance audits plus cause-and-effect analysis. When performed correctly, they are potentially the most useful of the evaluation methods, because they result in change.

Compliance Audits vs. Management Audits

Compliance Audits	Management Audits
Requirements are accepted given.	Requirements are challenged
Auditor assesses whether requirements are implemented	Auditor assesses whether requirements are effective and suitable.
Emphasizes stability	Emphasizes results
Designed for high risk and third - party applications	Generally limited to internal applications



Whether performing a compliance or a management audit, auditors must obey four basic rules-

First, audits must provide information for a defined need, that is, the customer's need.
Second, auditors must be capable of performing their duties.
Third, audits must measure performance against agreed criteria.
Fourth, audit conclusions must be based on fact.

Group - IV

PAPER : 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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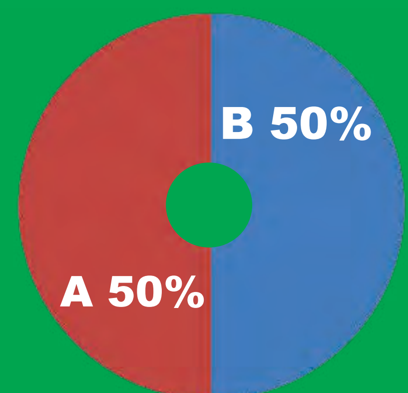
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

Sustainable Growth Rate

Concept and meaning

Generally, a business may be developed if there exist a relationship of sales growth with an increase in assets and equity. It means that if growth exceeds the financial resources needed to fund the increase in assets, the company must look for supplementary financing either through retained earnings or through issuing new shares or borrowing. The faster growth of the company the larger the need for investment, therefore the better the need to lift supplementary capital. The sustainable growth rate is a helpful instrument, which allows managers to find out how rapidly a company can develop, whether retained earnings are adequate to finance the company's growth, or what will be the external financial needs for future growth of the company.

Over the years, a profit was considered the vital objective of the company. The next factor of the triumph of the company generally was considered the growth. In modern times, nevertheless, there are rising signals that some managements must ultimately face the reality that uncontrolled growth may by contradictory with recognized financial policies.

Internal growth rate is the maximum growth rate that a company can accomplish without external funds. Besides, it focusing on how quickly the company can develop without any external financing, one should be concerned in the growth rate that can be sustained without any further equity issues. Generally managers find out the optimum capital structure for their company that is maintained as the equity is augmented by retained earnings. Therefore the firm issues only adequate debt to maintain the debt-equity ratio constant.

Sustainable growth is the growth rate that is most sensible estimate of the growth in a company's earnings, presumptuous that the company does not change its capital structure. The most widespread method of evaluation is to calculate sustainable growth, which is the product of the return on equity and earnings retention. According to Higgins (1977), the sustainable growth is the percentage of annual sales growth, which is in agreement with the company's recognized financial policies. Firer (1995) asserts that the sustainable growth rate is the maximum growth rate a company can have whilst all its financial parameters are stable. Snyman (1999) points out that the sustainable growth rate is the maximum growth rate a company can have without receiving any capital from investors or any long-term loans. According to Campbell (2004), the sustainable growth rate is the maximum growth rate that company can maintain without rising its financial leverage.

Sustainable growth rate is the maximum rate of growth in sales a company can accomplish without issuing new shares or changing either its operating policy or its financing policy. This metric presumes that the company will develop sales as quickly as market conditions allow, management is reluctant to issue new shares, and the company uphold its capital structure and dividend policy. The sustainable development of the company depends on the retention rate and financial performance of the equity. The larger the dividend payout ratio, the lower the growth rate of the company. Again, the larger return of the equity the larger the growth rate and vice versa. If sales growth of a company is faster than sustainable growth rate, it will increase the cash defficiency and If sales growth of a company is slower than sustainable growth rate, it will increase the cash surplus. This means that company is not efficiently utilizing its resources to make shareholder value. If a company grows quicker than the sustainable rate growth, it will build up financial needs that cannot be met.

The internal growth rate is different from the sustainable growth rate because internal growth rate of a company is the maximum rate per year a company can develop without external financing, whilst the sustainable growth rate is the maximum rate per year a company can develop without equity financing by maintaining a stable debt equity ratio.

The sustainable growth rate is habitually used in predicting earnings and should reflect the common trend, more willingly than year-to-year variations. Apart from the predicting of earnings on the basis of the present rates of profit margins, payout, asset turnover, and

financial leverage, the sustainable growth rate offers a technique for developing sensitivity growth analysis to the changes in the basic factors.

The sustainable growth rate of any company is determined by four factors, that is, profit margin, net asset turnover, financial policy and dividend policy. Profit margin is an augment of profitability ratio evaluates the making of internal funds, with direct shock in achieving growth; asset turnover ratio is an augment of the net asset turnover ratio causes an augment of sales generated per asset unit. This reduces the need for assets based on the augment of sales that results in the augment of the sustainable growth rate; financial policy is an augment of the total debt means supplementary resources and an augment of the sustainable growth rate and dividend policy is an augment in retention rate evaluates the growth of capital and absolutely the sustainable growth rate.

If the companies desire to uphold an systematic growth in that case there should be a steady level in profit margins, asset turnover, leverage, and retained earnings and they should develop their sales by the sustainable growth rate. If sustainable growth is lower than actual growth over a prolonged period, the company cannot continue such activity without funding that growth. At that moment, they need to plough more profits into the company, augment net profit margin or turnover performance or fund from external sources. When sustainable growth is higher than actual growth, the company has the prospective of increasing growth by redirecting the share of profits to stakeholders.

Calculation of sustainable growth rate

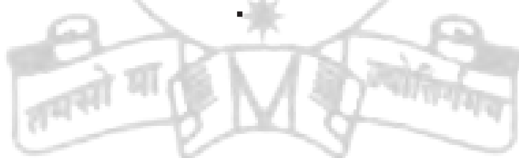
Sustainable growth rate is calculated through three models (Amouzesh, N., Moeinfar, Z. and Mousavi, Z., 2011). These are:

1. **Van Horne 's Model** - The model for calculating SGR is:
   SGR =b(NP/S)(1+D/Eq)/(A/S)-b(NP/S)(1+D/Eq)
   Where , NP/S is the net profit rate, D/Eq is the ratio of the debt and the equity, A/S is the rate of the total assets and the sales and b is the retained profits (1-b is the dividends ratio).
2. **Higgens 's Model** - The model for calculating SGR is:
   SGR = (P)(1-R)(1+L)/A-(P)(1-R)(1+L)
   Where P=profit margin on sales after taxes, R=percent of profit returned to owners, L = debt to equity ratio and A = asset to sales ratio.
3. **Zakon's Model** - The model for calculating SGR is:
   SGR = D/E . (R-i).p+R.p
   D/E = debt / equity ratio, R =ROA, i=interest rate (1- taxation rate) and p=retention ratio.
4. **Sustainable growth rate** may be calculated using the following formula.
   SGR = RR[EP+(EP-K)(D/E)]

Where RR = retention rate (RR), EP = after–tax earning power, K = after–tax cost of borrowing, and D = the level of utilization

Also sustainable growth rate may be calculated based on cash flow model.

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



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.

Dear Sir,
The e-bulletin for the month of April was very informative.
The quick takes helps us to get an overview of the respective subjects discussed. Its very useful, thanks to the CMA's professors & others who have taken their valuable time to prepare them for us.

Special mention & thanks on the Write up "SET THE GOAL" by CMA Dr.Sreehari Chava, it was very interesting & essential topic for all of us. Thanks for the same.

Thanks & Regards,
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Updation of E-Mail Address/Mobile:

Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. 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.

Open Submissions

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PRACTICAL ADVICE

ABOUT YOUR STUDIES - FINAL COURSE

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

Appear For Examination

Solve Exercises given in Study Notes

Assess Yourself

Read The Tips

Read Study Notes & MTPs

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;

Disclaimer:
Although due care and diligence have been taken in preparation and uploading this E-bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-bulletin.

Interview Practice Tips

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There is nothing that replaces practice and experience. Here under are a few tips that will help prepare you to walk into any interview with a much-needed confidence.

1. There are a number of different interview settings you may encounter and it is essential to see and know how to respond in every scenario. Do one interview with a friend or colleague, where you speak to this one individual. Then answer the questions in front of five to ten friends or colleagues. And finally, answer the same questions speaking straight to the camera. Notice how each can take on a different tone, but try to keep up the trust and likeability you portray in each scenario.

2. No matter what the interview, the most common question is in reference to you and your personal traits. Practice describing yourself with language and tones that come across as confident but not cocky. Make sure you know your strengths and key characteristics you'd like your audience to know about you.

3. Ask a friend to put three random topics in a box. Pull one out at a time and practice your impromptu responses. Have the friend include one question in which you might not know the answer. It is better to rehearse how you will handle an answer you don't know before you are in a critical interview.

4. Watch a taped interview of a polished interviewee and pause the video before they give their responses to the questions. Try your hand at the answers and see how your responses differ from the actual subject. Look for differences in dialogue, eye contact, body language and expressions.

5. Your body language can often tell more to your audience than your words do. Take one of your practice videos and watch it through with the volume turned off. See what your expressions and body language is portraying to the public. Ask a friend or colleague to watch the muted video as well and see if they can interpret the mood and impressions of your interview. Try playing around with different facial and body expressions in your next test interview from the feedback you receive.

6. In many interviews, you can't control what the interviewer is going to ask you, but you often have an agenda you want to accomplish or a point you want to make. Have a friend ask you an obscure question and try to work in a natural sounding transition to incorporate the point you want to make. Politicians are experts at this. Watch a few of their interviews to see how they always work an answer in the direction they want it.

7. Try being the interviewer and ask someone else the questions. It often helps to be on the other side of the microphone. It gives us a new perspective on how to answer questions.

8. Have fun! Even when you practice, put a smile on and try to focus on the positive aspects of your answers so you always portray an affable demeanor. Your good mood can influence others so keep the positive energy coming.

Interviews can be extremely important and can be quite influential in the outcome of your career. Knowing how important an interview can be, isn't it worth putting in the time to perfect your skills? Your interest in the improvement shows you are already halfway there.

Resource: 10 Practice Tips and Activities to Improve Your Interview Skills; www.huffingtonpost.com; 06.06.2017

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OR
Eight Years of Competition Law Enforcement in India

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