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CMA STUDENTS' FINAL

E- bulletin

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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

Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143

Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003

Phone: +91-11-2462-2156/2157/2158

Behind every successful business decision, there is always a CMA

MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings,

I hope you have started realising the true meaning of ***"An investment in knowledge pays the best interest"*** as you have started your journey in this professional course. My request to all of you is that gradually try to realise further that ***'Imagination is more important than knowledge' & 'What we learn with pleasure we never forget'***. Hence, apply yourself. Get all the education you can, but then, do something. Don't just stand there and feel that it happens automatically; rather try to make it happen. Try to explore the meaning of education in the correct context and feel really that "***Education is not a problem, education is an opportunity***".

Great academicians are putting down their valuable tips on different subjects and the Directorate of Studies are also trying to energise you in your preparation by the monthly publication of this E-bulletin. I believe that "***Technology will never replace great teachers but technology in the hands of great teachers is transformational***".

Be positive about your target and as the December term of examination is approaching, wishing you all 'Best of luck and effort'. I am faithful about your performances and I believe that you all are equally capable to deliver your best.

Enjoy your reading and appear boldly in your forthcoming examination,

Best wishes to you all,

CMA Manas Kumar Thakur

Chairman,
Training & Education Facilities (T& EF) Committee

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KNOWLEDGE UPDATE

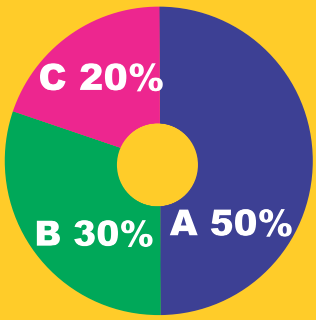
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

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

CMA (Dr.) Sumita Chakraborty
Jt. Director, Studies
She can be reached at:
studies.jd2@icmail.in

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.

Tit Bits of the Insolvency and Bankruptcy Code, 2016

Who can be called as 'Insolvency Professionals'?

The Insolvency and Bankruptcy Code, 2016 envisages a very big role for insolvency professionals. It is envisaged that most of work relating to insolvency and bankruptcy will be handled by insolvency professionals.

"Insolvency Professional" means a person enrolled under Section 206 of Insolvency and Bankruptcy Code, 2016 with an insolvency professional agency as its member and registered with the Board as an insolvency professional under Section 207 of Insolvency and Bankruptcy Code, 2016 - Section 3(19) of Insolvency and Bankruptcy Code, 2016. Thus, insolvency professional can be only an individual.

What can be called as 'Insolvency commencement date'?

- "Insolvency commencement date" means the date of admission of an application for initiating corporate insolvency resolution process by the Adjudicating Authority under Sections 7, 9 or Section 10 of Insolvency and Bankruptcy Code, 2016, as the case may be - Section 5(12) of Insolvency and Bankruptcy Code, 2016.

What do you mean by 'Information Utility'?

"Information utility" means a person who is registered with the 'Insolvency and Bankruptcy Board of India' (Board) as an information utility under Section 210 of Insolvency and Bankruptcy Code, 2016 - Section 3(21) of Insolvency and Bankruptcy Code, 2016. They will have to be registered with Board - Section 209 of Insolvency and Bankruptcy Code, 2016.

What are the 'Core Services' under the Insolvency and Bankruptcy Code, 2016?

"Core services" means services rendered by an information utility for –

(a) accepting electronic submission of financial information in such form and manner as may be specified

(b) safe and accurate recording of financial information

(c) authenticating and verifying the financial information submitted by a person; and

(d) providing access to information stored with the information utility to persons as may be specified - Section 3(9) of Insolvency and Bankruptcy Code, 2016.

What do you mean by 'Operational Debt' under Insolvency and Bankruptcy Code, 2016?

Operational debt means a claim in respect of the provision of goods or services including employment or a debt in respect of the repayment of dues arising under any law for the time being in force and payable to the Central Government, any State Government or any local authority;

What can be called as 'Financial Information' according to the Insolvency and Bankruptcy Code, 2016?

Financial information, in relation to a person, means one or more of the following categories of information, namely:—

(a) records of the debt of the person;

(b) records of liabilities when the person is solvent;

(c) records of assets of person over which security interest has been created;

(d) records, if any, of instances of default by the person against any debt;
(e) records of the balance sheet and cash-flow statements of the person; and
(f) such other information as may be specified. [Section 3(13)]

What is meant by 'Dispute' under The Insolvency and Bankruptcy Code, 2016?

Dispute includes a suit or arbitration proceedings relating to—

(a) the existence of the amount of debt;
(b) the quality of goods or service; or
(c) the breach of a representation or warranty; [Section 5(6)]

Who are 'Corporate Person' under the Act?

Corporate person means company or LLP or other body corporate with limited liability. However, the Code completely excludes financial service providers. The reason is that they are regulated by specialized agencies. Thus, the Code does not cover Bank, Financial Institutions, Insurance Company, Asset Reconstruction Company, Mutual Funds, Collective Investment Schemes or Pension Funds.

Who can initiate insolvency resolution process?

Where any corporate debtor commits a default, a financial creditor, an operational creditor or the corporate debtor itself may initiate corporate insolvency resolution process in respect of such corporate debtor in the manner as provided - Section 6 of Insolvency and Bankruptcy Code, 2016.

What do you mean by 'Constitutional document'?

Constitutional document in relation to a corporate person, includes articles of association, memorandum of association of a company and incorporation document of a Limited Liability Partnership - Section 5(4) of Insolvency and Bankruptcy Code, 2016.

What do you mean by 'Security interest'?

Security interest means right, title or interest or a claim to property, created in favour of, or provided for a secured creditor by a transaction which secures payment or performance of an obligation and includes mortgage, charge, hypothecation, assignment and encumbrance or any other agreement or arrangement securing payment or performance of any obligation of any person. However, that security interest shall not include a performance guarantee - Section 3(31) of Insolvency and Bankruptcy Code, 2016.

What do you mean by 'Transaction'?

Transaction includes an agreement or arrangement in writing for the transfer of assets, or funds, goods or services, from or to the corporate debtor - Section 3(33) of Insolvency and Bankruptcy Code, 2016.

Who can be called as 'Resolution applicant'?

"Resolution applicant" means any person who submits a resolution plan to the resolution professional - Section 5(25) of Insolvency and Bankruptcy Code, 2016.

What do you mean by 'Relevant information'?

Relevant information means the information required by the resolution applicant to make the resolution plan for the corporate debtor, which shall include the financial position of the corporate debtor, all information related to disputes by or against the corporate debtor and any other matter pertaining to the corporate debtor as may be specified.

What will be the effect if resolution plan rejected by NCLT?

If resolution plan is rejected by Adjudicating Authority, liquidation process will commence - Section 33(1) of Insolvency and Bankruptcy Code, 2016.

Who can be called as 'Workman' under the Insolvency and Bankruptcy Code, 2016?

- "Workman" shall have the same meaning as assigned to it in Section 2(s) of the Industrial Disputes Act, 1947 - Section 3(36) of Insolvency and Bankruptcy Code, 2016.

What is meant by the 'Insolvency resolution process costs'?

Insolvency resolution process costs means –
(a) the amount of any interim finance and the costs incurred in raising such finance
(b) the fees payable to any person acting as a resolution professional
(c) any costs incurred by the resolution professional in

running the business of the corporate debtor as a going concern

(d) any costs incurred at the expense of the Government to facilitate the insolvency resolution process; and

(e) any other costs as may be specified by the Board - Section 5(13) of Insolvency and Bankruptcy Code, 2016. Interim finance means any financial debt raised by the resolution professional during the insolvency resolution process period - Section 5(15) of Insolvency and Bankruptcy Code, 2016.

Can the creditor ask for information from the liquidator?

Creditors can ask for information from liquidator. The creditors may require the liquidator to provide them any financial information relating to the corporate debtor in specified manner - Section 37(2) of Insolvency and Bankruptcy Code, 2016. The liquidator shall provide information to such creditors within a period of seven days or provide reasons for not providing such information.

Can the liquidator do consultation with stakeholders?

The liquidator shall have the power to consult any of the stakeholders entitled to a distribution of proceeds under Section 53 of Insolvency and Bankruptcy Code, 2016. However, such consultation shall not be binding on the liquidator. The records of any such consultation shall be made available to all other stakeholders not so consulted, in a manner specified by the Board - Section 35(2) of Insolvency and Bankruptcy Code, 2016.

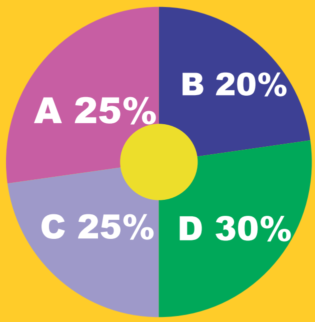
Group - III
Paper - 14
Strategic Financial Management (SFM)

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

Your Preparation Quick Takes

Syllabus Structure

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



Learning objectives:

After studying this section, you will be able to:

- *understand the concepts of Standard Deviation, Coefficient of Variation and Decision Tree Analysis in the context of risk in capital budgeting decision*
- *apply Standard Deviation, Coefficient of Variation and Decision Tree Analysis for assessing risk in capital budgeting decision*

Standard Deviation

The standard deviation is a statistical measure of the variability of distribution around its mean. The following steps are taken to calculate the standard deviation of a capital budgeting project:

(i) Compute the expected value of cash-flow probability distribution for the time period t, E (CF_t) which is defined as $E(CF_t) = \sum_{i=1}^{n} CF_{it} \times P_{it}$

where CF_{it} is the cash flow for the i^{th} possibility at time period t, P_{it} is the probability of that cash flow occurring and n is the total number of cash flow possibilities occurring at time period t.

(ii) The cash-flow standard deviation at time period t, σ_t, is computed with the help of the following formula: $\sigma_t = \sqrt{\sum_{i=1}^{n} [CF_{it} - E(CF_t)]^2 \times P_{it}}$ where √ represents the square root sign. The square of σ_t is known as the variance of the distribution.

Coefficient of Variation

Standard deviation is an absolute measure and it is not generally applied for comparison particularly where projects involve different cash flows on different expected values. In such a case relative measures of dispersion should be calculated. Coefficient of variation is one of such measures. It is computed as the ratio of the standard deviation of a distribution to the mean of that distribution.

Decision Tree Analysis

Decision tree is a graphical depiction of all possible cash-flow streams generated by an investment. In this approach all likely future cash flows of a project are specified with the outcomes in previous periods. It is constructed with (a) decision points representing the various courses of managerial actions available at a given point of time and followed by (b) the chance events that follow each action which affects the future course of actions and again followed by decisions points. This process continues till all the decisions are exhausted. The probability associated with the initial chance events is known as initial probability and the probabilities associated with the succeeding periods are said to be conditional probabilities and the joint probability is the probability that a particular sequence of cash flows might occur. Finally, the expected value of all possible net present value is computed as $E(NPV) = \sum_{i=1}^{n} NPV_i \times P_i$ where NPV_i is the net present value for the i^{th} cash flow series, P_i is the joint probability of the i^{th} cash flow series and n is the total number of complete cash flow series. However, a positive expected value of NPV cannot be used as a sole criterion for accepting a particular project. We have to consider the risk dimension of the project as calculated with help of following formula:

$\sigma_{NPV} = \sqrt{\sum_{i=1}^{n} [NPV_i - E(NPV)]^2 \times P_i}$ where σ_{NPV} is the standard deviation of the probability distribution of possible net present values.

Example 1

A company is considering two mutually exclusive proposals A and B. From the following information you are required to find out the standard deviation and coefficient of variation of each proposal.

Proposal A		Proposal B	
Cash Flows	Probability	Cash Flows	Probability
6500	0.30	5000	0.30
4000	0.40	4000	0.40
4500	0.20	3000	0.10
5000	0.10	2000	0.20

Solution

Table showing the necessary calculations

Proposal A				Proposal B			
Cash Flows (CF_i)	Probability (P_i)	$CF_i x P_i$	$[CF_i-E(CF)]^2 P_i$	Cash Flows (CF_i)	Probability (P_i)	$CF_i x P_i$	$[CF_i-E(CF)]^2 P_i$
6500	0.30	1950	7,20,750	5000	0.30	1500	2,32,000
4000	0.40	1600	3,61,000	4000	0.40	1600	16,000
4500	0.20	900	40,500	3000	0.10	300	64,000
5000	0.10	500	250	2000	0.20	400	6,48,000
Total		**4950**	**11,22,500**	**Total**		**3800**	**11,60,000**

Standard deviation of Project A = $\sqrt{11,22,500}$ = 1,059

Standard deviation of Project B = $\sqrt{11,60,000}$ = 1,077

Coefficient of variation of Project A = 1059/4950 = 0.21

Coefficient of Variation of Project B = 1077/3800 = 0.28

Example 2

A firm has an investment proposal, requiring an outlay of Rs. 40,000. The investment proposal is expected to have 2 years' economic life with no salvage value. In the 1st year, there is a 0.4 probability that cash inflows after tax will be Rs. 25,000 and 0.60 probability that cash inflow after tax will be Rs. 30,000. The probabilities assigned to cash inflows after tax for the 2nd year are as follows:

The cash inflows in 1st year	Rs. 25,000		Rs. 30,000	
The cash inflows in 2nd year	Probability		Probability	
	Rs. 12,000	0.20	Rs. 20,000	0.40
	Rs. 16,000	0.30	Rs. 25,000	0.50
	Rs. 22,000	0.50	Rs. 30,000	0.10

Solution

(a)

Decision Tree

The above decision tree shows that there are six possible outcomes each of which is represented by a path. The net present value of each path at 10% discount rate is given below:

Year 1		Year 2						
Initial Probability P(1)	Net cash Flows	Conditional Probability P(2/1)	Net Cash flows	Path Number	Joint Probability P(1,2)	Present value of total Cash Inflows	Cash outflow	Net Present Value
0.40	25,000	0.20	12,000	1	0.08	32,637	40,000	-7,363
		0.30	16,000	2	0.12	35,941	40,000	-4,059
		0.50	22,000	3	0.20	40,897	40,000	897
0.60	30,000	0.40	20,000	4	0.24	43,790	40,000	3,790
		0.50	25,000	5	0.30	47,920	40,000	7,920
		0.10	30,000	6	0.06	52,050	40,000	12,050

(b) Expected NPV

= $\sum_{i=1}^{5} NPV_i \times P_i$

= (-7363 x 0.08)+(-4059 x 0.12)+(897 x 0.20) + (3790 x 0.24) + (7920 x 0.30) + (12,050 x 0.06)

= 3,112

Standard deviation of NPV = $\sqrt{\sum_{i=1}^{6} [NPVi - E(NPV)]^2 \times P_i}$

= [{(-7363-3112)² x 0.08} + {(-4059-3112)² x 0.12} + {(897-3112)² x 0.20} + {(3790-3112)² x 0.24} + {(7920-3112)² x 0.30} + {(12050-3112)² x 0.06}]$^{1/2}$

= (8778050 + 6170789 + 981245 + 110324 + 6935059 + 4793271)$^{1/2}$

= √ 27,768,738

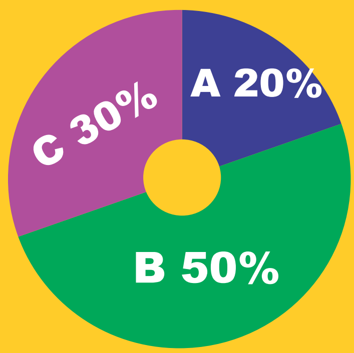
= 5270

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

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

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%**



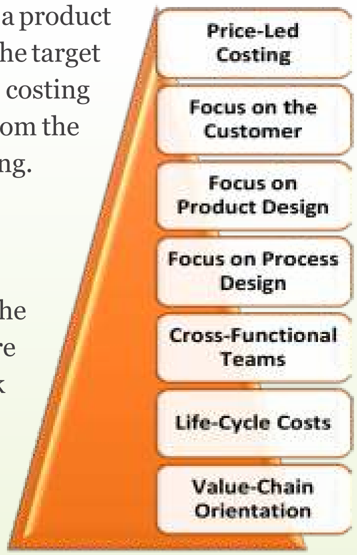
Learning Objectives:

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?

Seven Key Principles of Target Costing

Target costing is a common practice in Japan where markets are extremely competitive. The market determines the price of products and there is a little opportunity for the individual organisations to set prices. Therefore, controlling cost is extremely important. Here follow the Seven Key Principles that encompass Target Costing.



1. Price-Led Costing: Target costing sets the target cost by first determining the price at which a product can be sold in the marketplace. Subtracting the target profit margin from this target price yields the target cost, that is, the cost at which the product must be manufactured. Notice that in a target costing approach, the price is set first, and then the target product cost is determined. This is opposite from the order in which the product cost and selling price are determined under traditional cost-plus pricing.

Key Derivation: Cost = Price - Profit

2. Focus on the Customer: To be successful at target costing, management must listen to the company's customers. What products do they want? What features are important? How much are they willing to pay for a certain level of product quality? Management needs to aggressively seek customer feedback, and then products must be designed to satisfy customer demand and be sold at a price they are willing to pay. In short, the target costing approach is market driven.

Key Derivation: Customer is the Philosopher

3. Focus on Product Design: Design engineering is a key element in target costing. Engineers must design a product from the ground up so that it can be produced at its target cost. This design activity includes specifying the raw materials and components to be used as well as the labour, machinery, and other elements of the production process. In short, a product must be designed for manufacturability.

Key Derivation: Manufacturable Product Design forms the Base

4. Focus on Process Design: Every aspect of the production process must be examined to make sure that the product is produced as efficiently as possible. The use of touch labour, technology, global sourcing in procurement and every aspect of the production process must be designed with the product's target cost in mind.

Key Derivation: Efficient Process Design is the Pillar

5. Cross-Functional Teams: Manufacturing a product at or below its target cost requires the involvement of people from many different functions in an organisation: market research, sales, design engineering, procurement, production engineering, production scheduling, material handling and cost management. Individuals from all these diverse areas of expertise can make key contributions to the target costing process. Moreover, a cross-functional team is not a set of specialists who contribute their expertise and then leave; they are responsible for the entire product.

Key Derivation: Team Work does the Trick

6. Life-Cycle Costs: In specifying a product's target cost, analysts must be careful to incorporate all of the product's life-cycle costs. These include the costs of product planning and concept design, preliminary design, detailed design and testing, production, distribution and customer service. Traditional cost-accounting systems have tended to focus only on the production phase and have not paid enough attention to the product's other life-cycle costs.

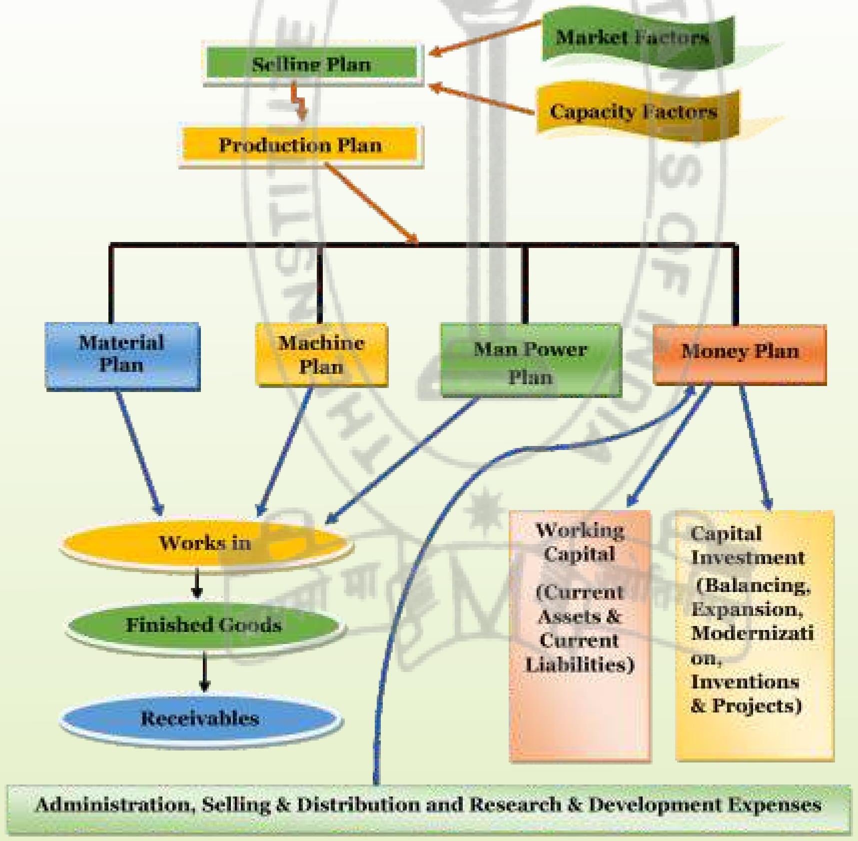
Key Derivation: Life Cycle Perception is the Approach

7. Value-Chain Orientation: Sometimes the projected cost of a new product is above the target cost. Then efforts are made to eliminate non-value-added costs to bring the projected cost down. In some cases, a close look at the company's entire value chain can help managers identify opportunities for cost reduction.

Key Derivation: Value Addition is the Crux

Budget Chain

Budget Chain may be evolved akin to value chain. The functions are interconnected and value bearing. The figure, furnished hereunder, demonstrates the Budget Chain in synchronization with the operational flows.



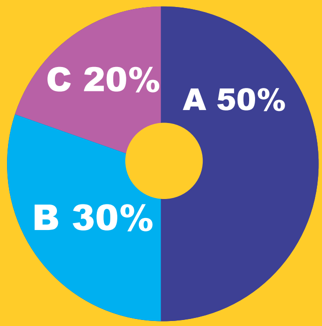
Group - III
Paper - 16
Direct Tax Laws and International Taxation (DTI)

CA Vikash Mundhra
He can be reached at:
vikash@taxpointindia.com

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

REVISION

Revision of order prejudicial to the revenue [Sec. 263]	
Orders which may be revised	Any order passed by the Assessing Officer, which is - **a)** Erroneous; **b)** Prejudicial to the interests of the revenue; and **c)** Passed by an authority subordinate to the Commissioner. **Notes** Orders passed by the Assessing Officer includes - **i.** An order of assessment made by the Assistant Commissioner on the basis of the directions issued by the Joint Commissioner u/s 144A; **ii.** An order made by the Joint Commissioner - in exercise of the powers; or in performance of the functions of the Assessing Officer assigned to him under the orders or directions issued by the Board or by the Chief Commissioner or Director General or Commissioner. **Note:** - Order made by the Assessing Officer after making proper enquiries and considering relevant details and decisions of Supreme Court cannot be said to be erroneous and prejudicial to the interest of the revenue, hence such order cannot be revised. - An order passed by the Assessing Officer shall be deemed to be erroneous in so far as it is prejudicial to the interests of the revenue, if, in the opinion of the Principal Commissioner or Commissioner: **a)** the order is passed without making inquiries or verification which should have been made; **b)** the order is passed allowing any relief without inquiring into the claim; **c)** the order has not been made in accordance with any order, direction or instruction issued by the Board under section 119; or **d)** the order has not been passed in accordance with any decision which is prejudicial to the assessee, rendered by the jurisdictional High Court or Supreme Court in the case of the assessee or any other person
Treatment of an order, which is subject matter of the appeal	Revision u/s 263 of an order, which is subject matter of appeal, cannot be made. **Notes** The Commissioner can revise such order (which has been a subject matter of appeal) which had not been considered and decided in such appeal. • An order cannot be said to have been made subject of an appeal if the appeal has been disposed of by the appellate authority without passing an order

Procedure to be followed	1. **Examination of Records:** The Commissioner may call for and examine the records of any proceeding under the Act. If he considers that any order passed by the Assessing Officer is prejudicial to the interest of the revenue, he can revise and rectify the assessment. Record shall include all records relating to any proceeding under this Act available at the time of examination by the Commissioner. This means that any material, which was not available at the time of assessment but available at the time of examination by the Commissioner, shall also be considered for order u/s 263. 2. **Inquiry:** He must make or cause to be made such inquiry as he deems necessary. 3. **Opportunity of being Heard:** No revision order shall be passed u/s 263 without giving the assessee an opportunity of being heard. 4. **Order:** Finally, he may pass such revision order as the circumstances of the case justify including an order enhancing, modifying or cancelling the assessment and directing a fresh assessment.
Time limit for passing revision order	2 years from the end of the financial year in which the order sought to be revised was passed. In computing the above period of limitation following period shall be excluded - Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & Any period during which any proceeding under this section is stayed by an order or injunction of any court. **Exception:** There is no time limit for passing a revision order to give effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.
Appeal against order u/s 263	A revisional order passed by the Commissioner u/s 263 can be appealed to the Tribunal.

Sec.263 vs. sec.154: Commissioner can exercise the power even in a case where the issue is debatable. Revision power u/s 263 is not comparable with the power of rectification of mistake u/s 154

Revision of Order not Prejudicial to Revenue [Sec. 264]

Orders which may be revised	Any order which is - erroneous; not covered u/s 263 (i.e. not prejudicial to the interest of the revenue); passed by an authority subordinate to the Commissioner. ***Taxpoint:*** *No order* under this section can be passed which is prejudicial to the assessee. **Notes:** **a)** Order which is not appealable before the Commissioner (Appeal) can also be referred to the Commissioner for revision. **b)** For the purposes of this section, the Deputy Commissioner (Appeals) shall be deemed to be an authority subordinate to the Commissioner.
On whose motion is revision possible	Either on the Commissioner's own motion or on an application by the assessee for revision.

Procedure to be followed	1. **Examination of Records:** Once revision proceedings have been initiated, the Commissioner may call for and examine the record of any proceeding. 2. **Inquiry:** He must also make or cause to be made such inquiry as he deems necessary 3. **Order:** He may pass such revision order as the circumstances of the case justify. However, the order passed should not be prejudicial to the assessee. The Commissioner under this section, can cancel the assessment and direct the Assessing Officer to make a fresh assessment.
Time limit for filing an application	Where revision has been initiated by the assessee, the application must be made within 1 year from the date on which the order in question was communicated to the assessee or the date on which he otherwise came to know of it, whichever is earlier. However, the Commissioner can admit a belated application if the assessee was prevented by sufficient cause from making the application within time. In computing the above period of limitation following time shall be excluded: The day on which the order complained of was served; and • If the assessee had not received the copy of the order, the time required to obtain copy of such order.
Time limit for passing a revisional order	Where the Commissioner acts on his own motion – Within 1 year from the date of original order Where the application is made by the assessee **–Within 1 Year From The End of the Financial year in which such Application is Made.** In computing the above period of limitation following period shall be excluded. Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & Any period during which any proceeding under this section is stayed by an order or injunction of any court. [Sec. 264(6)] • However, there is no time limit for passing a revision order for giving effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.
Orders which cannot be revised	a) Where an order is appealable but no appeal has been made to CIT (A) or to the Tribunal and time within which such appeal can be made has not expired. **Note:** Where an appeal lies to the Commissioner (Appeals) or to the Appellate Tribunal and the right of appeal is waived by the assessee, the Commissioner may revise the order even before the expiry of time limit of appeal. b) Where the order has been made the subject of an appeal to the Commissioner (Appeals) or to the Appellate Tribunal; or **Note** The assessment order could not be said to have been made subject matter of appeal- 1. Where an appeal was dismissed - a) on the ground that the same was incompetent; or b) as barred by limitation; or 2. Where an appeal was withdrawn at the motion of the assessee.
Fee	₹ 500 where the application for revision is made by the assessee.

Appeal against order u/s 264	A revision order passed by the Commissioner u/s 264 cannot be appealed to the Tribunal or the High Court. However, a petition for a writ of certiorari under Article 226 is maintainable
Other points	The assessee cannot claim the right of revision in respect of an earlier year on the basis of finding of the Tribunal for a subsequent year. • An order by the Commissioner declining to interfere shall not be deemed to be an order prejudicial to the assessee.

Recent Decisions

- Unclaimed relief can be sought through a revision application to CIT u/s 264 [Vijay Gupta -vs.- CIT (Delhi)]
- There is a distinction between "lack of enquiry" and "inadequate enquiry". Revision on the ground that the AO did not conduct a detailed inquiry on account of paucity of time is unfair to the assessee and invalid [Pr CIT -vs.- Mera Baba Reality Associates Pvt Ltd (Delhi)]
- When the order of the first appellate authority is complete and the appeal is pending before the Tribunal, the Commissioner is precluded from invoking sec. 263 for revision of the very same matter decided by the first appellate authority since the law provides that Commissioner u/s 263 can revise only those matters which are not subject matter of an appeal [CIT -vs.- Fortaleza Developers (Bom)]
- The Commissioner u/s 263 can revise those matters which is not subject matter for appeal or revision. Therefore, the matter whichever revised by the Commissioner u/s 264 cannot be revised u/s 263 [CIT -vs.- New Mangalore Port Trust (Kar.)]

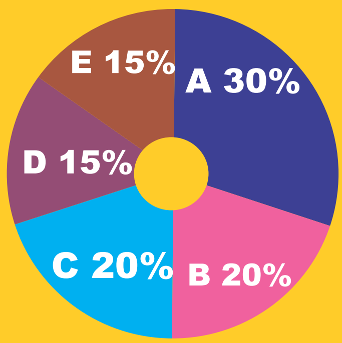
Group - IV
Paper - 17
Corporate Financial Reporting (CFR)

Shri Soumya Mukherjee
Assistant Professor,
Maharaja Manindra Chandra College
He can be reached at:
soumyamukherjee36@gmail.com

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

GUARANTEES GIVEN BY GOVERNMENTS: DISCLOSURE REQUIREMENTS [IGAS - 1]

INTRODUCTION:

- The Indian Government Accounting Standards specifies the disclosure requirements in the Financial Statements of the Union and the State Governments of Guarantees given by Governments.
- The Union Government and the State Governments give Guarantees for repayment of borrowings within such limits, if any, as may be fixed upon the security of the Consolidated Fund of India or of the State, as the case may be, in terms of articles 292 and 293 of the Constitution. Guarantees are also given by the Union Government for payment of interest on borrowings, repayment of share capital and payment of minimum annual dividend, payment against agreements for supplies of materials and equipments on credit basis on behalf of the State Governments, Union territories, local bodies, railways, Government companies or corporations, joint stock companies, financial institutions, port trusts, electricity boards and co-operative institutions.
- Guarantees are also given by the Union Government to the Reserve Bank of India, other banks and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and for providing working capital in respect of companies, corporations, co-operative societies and co-operative banks. Further, guarantees are also given in pursuance of agreements entered into by the Union Government with international financial institutions, foreign lending agencies, foreign Governments, contractors and consultants towards repayment of principal, payment of interest and payment of commitment charges on loans.
- The Union Government also gives performance guarantees for fulfilment of contracts or projects awarded to Indian companies in foreign countries as well as foreign companies in foreign countries besides counter-guarantees to banks in consideration of the banks having issued letters of credit to foreign suppliers for supplies or services rendered by them on credit basis in favour of companies or corporations. Furthermore, guarantees are given by the Union Government to railways, and electricity boards for due and punctual payment of dues and freight charges by the companies and corporations. Similarly, guarantees are also given by the State Governments and Union Territory Governments (with legislature).
- As the statutory corporations, Government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. Their financial obligations may be guaranteed by a Government and thus the Government has a commitment to see that these are fulfilled. When these entities borrow directly from the market, it reduces a Government's budgetary support to them and the magnitude of a Government's borrowings. However, it adds to the level of Guarantees given by the Governments. In consideration of the Guarantees given by the Governments, the beneficiary entities are required to pay guarantee commission or fee to the Governments. The Guarantees have an important economic influence and result in transactions or other economic flows when the relevant event or conditions actually occur. Thus, Guarantees normally constitute contingent liability of the Governments.

OBJECTIVE OF THE STANDARD:

The objective of this Standard is to set out disclosure norms in respect of Guarantees given by the Union, the State Governments and Union Territory Governments (with legislature) in their respective Financial Statements to ensure uniform and complete disclosure of such Guarantees.

SCOPE OF THE STANDARD:

- This Standard applies to preparation of the Statement of Guarantees for inclusion and presentation in the Financial Statements of the Governments. Financial Statements should not be described as complying with this Standard unless these comply with all its requirements.
- The Authority in the Government which prepares the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this Standard. The Accounting Authority is responsible for inclusion and presentation of the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.

IMPORTANT DEFINITION:

- **Accounting Authority:**

  It means the Authority which prepares the Financial Statements of the Government.
- **Authority in the Government:**

  It means the tracking (monitoring) unit or Authority for Guarantees and in its absence, the Ministry or the Department of Finance, as the case may be.
- **Automatic Debit Mechanism:**

  It means the arrangement whereby the Government's cash balance is affected on a specified date or on the occurrence of specified events to meet certain obligations arising out of Guarantees given by it.
- **Financial Statements:** It mean the Annual Finance Accounts of the Governments;
- **Guarantee:** It means an accessory contract, by which the promisor undertakes to be answerable to the promisee for the debt, default or miscarriage of another person, whose primary liability to the promisee must exist or be contemplated.
- **Structured Payment Arrangement:**

  It means the arrangement whereby the Government agrees to transfer funds to the designated account in case the beneficiary entity fails to ensure availability of adequate funds for servicing the debts, as per stipulations.

DISCLOSURE REQUIREMENT:

- The Financial Statements of the Union Government, the State Governments and the Union Territory Governments (with legislature) shall disclose the following details concerning class or sector of Guarantees in the specified format:
  - maximum amount for which Guarantees have been given during the year, additions and deletions (other than invoked during the year) as well as Guarantees outstanding at the beginning and end of the year;
  - amount of Guarantees invoked and discharged or not discharged during the year;
  - details of Guarantee commission or fee and its realisation; and
  - other material details.
- The Financial Statements of the Union Government, the State Governments and the Governments of Union Territories (with legislature) shall disclose in the notes the following details concerning class or sector of Guarantees:
  - limit, if any, fixed within which the Government may give Guarantee;

- o whether Guarantee Redemption or Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year;
- o details of subsisting external foreign currency guarantees in terms of Indian rupees on the date of Financial Statements;
- details concerning Automatic Debit Mechanism and Structured Payment Arrangement, if any;
- whether the budget documents of the Government contain details of Guarantees;
- details of the tracking unit or designated authority for Guarantees in the Government; and
- other material details.

OTHER IMPORTANT ISSUES REGARDING DISCLOSURE REQUIREMENTS OF GUARANTEES GIVEN BY GOVERNMENTS:

- The Financial Statements disclose whether details of Guarantees are published in the annual budget presented to the Parliament and State Legislature, as the case may be.
- In order that a proper database is maintained for all Guarantees annually sanctioned, annulled and outstanding, a tracking unit for Guarantees is usually designated in the Ministry or Department of Finance in the respective Governments. The Financial Statements disclose the details concerning the tracking unit for guarantees or any concerned authority in charge of this responsibility.
- Many Governments have set up either a Guarantee Redemption Fund or a Guarantee Reserve Fund. Some Governments have made; arrangement for Automatic Debit Mechanism for discharging the obligations arising out of such Guarantees executed by the Government. There are also Structured Payment Arrangements. The Financial Statements disclose full details concerning these arrangements.
- When Guarantees are invoked and payments made, the payment is treated as loan to the beneficiary on whose behalf the Guarantees were given and recoveries there against are monitored. The expenditure, loan and recoveries are distinctly classified in the Financial Statements. If, in due course, the whole or part of the loan amount is finally held to be irrecoverable, the same is adjusted

  a) where a Guarantee Reserve Fund exists, by debit to such Fund and

  b) where the guarantee Reserve Fund does not exist, by debit to "Irrecoverable loan written off under the function for which the loan has been guaranteed and where the purpose cannot be identified, by debit to "Miscellaneous General Services".

EFFECTIVE DATE:

- This Indian Government Accounting Standard becomes effective for Financial Statements covering periods beginning on or after 1-4-2010 for class-wise disclosures in the Financial Statements of the Union Government and sector-wise disclosures in the Financial Statements of the State Governments and Union Territory Governments (with legislature).
- Sector-wise disclosures for each class, as per the specified format are encouraged to be made in the Financial Statements of the Union Government as well as the State Governments or Union Territory Governments with legislature.

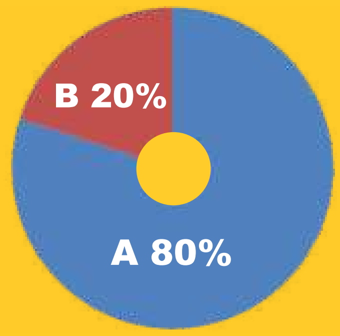
Group - IV
Paper - 18
Indirect Tax Laws & Practice (ITP)

Shri Abhik Kr. Mukherjee
Assistant Professor,
Dep. of Business Administration
The University of Burdwan
He can be reached at:
akmukherjee@mba.buruniv.ac.in

Your Preparation Quick Takes

Syllabus Structure

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



Learning objectives:

After studying this section, you will be able to:

- Understand the concept and scope of Duty Drawback under customs;
- Understand the provisions of duty drawback u/s 74 of the Customs Act, 1962;
- Understand the provisions of duty drawback u/s 75 of the Customs Act, 1962;
- Differentiate between the provisions of Sec. 74 and Sec. 75.

DUTY DRAWBACK ON IMPORTED GOODS UNDER CUSTOMS ACT

Introduction

Export of goods happens to be one of the primary sources of earning valuable foreign exchange for an economy. Sustained growth in exports is crucial for maintaining and accelerating the growth momentum of an economy and also for improving the other macro-economic indicators. With this vision, the Government of India adopts various measures to encourage export of goods from India. The mechanism of duty drawback provided under the Customs Act, 1962 happens to be one of the popular and principal methods of encouraging the export of goods from India.
The term 'drawback', simply means 'refund of duty or tax'. In other words, it happens to be a relief by way of refund/ recoupment of custom and excise duties paid on inputs or raw materials and service tax paid on the input services used in the manufacture of export goods.

As per the provisions of the Customs Act, 1962, there are two instances when drawback is allowed:

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

These instances have been provided under Sec. 74 and Sec. 75 of the Customs Act, 1962. In the subsequent sections, the provisions of drawback under both these sections have been separately discussed and the differences between these two types of drawback situations have been highlighted.

Duty drawback on re-export of imported goods [Sec. 74 of Customs Act, 1962]

Section 74 of the Customs Act and the Re-export of Imported Goods (Drawback of Customs Duties) Rules, 1995 set out the provisions for duty drawback on the event of re-export of imported goods by an importer. The various provisions in relation to the same are discussed hereunder:

- ***On whom the drawback provisions are applicable:*** An importer of goods can claim the drawback.
- ***Conditions:*** The conditions on the compliance of which such duty drawback is available to the importer are discussed hereunder:
    - *Imported goods*: The goods on which drawback is claimed must have been previously imported. In other words, duty drawback cannot be claimed on goods that have not been imported into India.
    - *Payment of Import duty*: Import duty must have been paid on these goods when they were imported.
    - *Identification of goods*: The goods are capable of being easily identified as imported goods, and such goods are

identified to the satisfaction of the Assistant Commissioner or Deputy Commissioner of Customs as the goods, which were originally imported;

- *Re-export of goods*: The goods must actually be re-exported to any place outside India.
- *Mode of re-export*: Goods have been entered for export either on a shipping bill through sea or air, or on a bill of export through land, or as baggage, or through post and the proper officer should have permitted clearance of the goods for export;
- *Time limit* for re-export: Such imported goods are entered for export within two years from the date of payment of import duty. However, the said period of two years can be extended on sufficient grounds being shown.

NB: It is to be noted that the time limit of two years has to be considered from the date of payment of import duty and not the Date of Importation.

- ***Quantum of drawback:*** The quantum of drawback under this section can be maximum 98% of the import duty paid can be repaid as drawback. However, the exact amount of drawback that is to be repaid depends on the fact whether the goods have been reported without use by the importer or after use by the importer.

Drawback on imported goods used in the manufacture of export goods [Sec. 75 of Customs Act, 1962]

Section 75 of the Customs Act and the Customs, Central Excise Duties and Service Tax Drawback Rules, 1995 set out the provisions for duty drawback on export of manufactured articles or goods. To be precise, this section provides for drawback in the event of export of goods manufactured using imported/ excisable materials or input services. The various provisions in relation to the same are discussed hereunder:

- ***On whom the drawback provisions are applicable:*** A manufacturer of goods can claim the drawback.
- ***Conditions:*** The conditions on the compliance of which such duty drawback is available to the importer are discussed hereunder:
  - *Imported/ excisable materials or input services*: Drawback under this provision can be claimed on imported/ excisable materials or import services used in the manufacture of export goods.
  - *Manufacturing, processing etc. in India:* The goods on which drawback is claimed must have been manufactured, processed or any operation has been carried out in India. In other words, duty drawback cannot be claimed on goods that have not been manufactured, processed or operated upon in India.
  - *Chargeability of customs duties*: The drawback shall be allowed of duties of customs chargeable under this Act on any imported materials of a class or description used in the manufacture or processing of such goods, or carrying out any operation on such goods.
  - *Export of manufactured goods*: The manufactured goods must be exported to any place outside India.
  - *Mode of export*: Such manufactured goods have been entered for export either on a shipping bill through sea or air, or on a bill of export through land, or through post and the proper officer should have permitted clearance of the goods for export;
  - *Notification by Central Government*: The drawback is allowed only if the Central Government has directed that the

drawback shall be allowed on such goods. Such notification has to be made in the Official Gazette.

- ***Quantum of drawback:*** The quantum of drawback is determined at such amount, or at such rates, as may be determined by the Central Government fixed under Rule 3 or Rule 6 or Rule 7 of the Customs, Central Excise Duties and Service Tax Drawback Rules, 1995.

'Drawback u/s 74' vs 'Drawback u/s 75'

The two sections proving for drawback under the Customs Act can be differentiated as under:

Point of Difference	Drawback u/s 74	Drawback u/s 75
Applicability of drawback	Drawback is allowed on re-export of imported goods	Drawback is allowed when imported/ excisable materials or input services are used in manufacture of export goods.
On whom applicable	An importer of goods	A Manufacturer or producer of goods
Duties eligible for drawback	Only import duty paid is eligible for drawback.	Customs duties, excise duties and service tax paid on imported/ excisable materials or input services are eligible for drawback.
Quantum of drawback	Maximum 98% of the import duty paid. The rate of drawback is 98% in case the goods are exported without use. The rate of drawback on goods taken into use is separately notified depending upon the period of use, depreciation in value and other relevant factors.	Drawback at such amount, or at rates fixed under Rule 3 or Rule 6 or Rule 7 of the Customs, Central Excise Duties and Service Tax Drawback Rules, 1995. As per section 75, rate of drawback per unit of final article to be exported is fixed by taking into account — Mode of manufacture, Input-output ratio, Standardization of the products etc.
Specific identification of goods	The specific identity of the goods exported should be established as the one, which was imported on payment of duty.	The specific identity of the goods exported is not required to be established.
Goods eligible for drawback	Drawback under Sec. 74 is available on any goods (subject to 'Identification criterion')	Drawback under Sec. 75 is available only on notified goods.

Time limit	In case of Sec. 74, the goods should be exported within two years from the date of payment of duty or such extended time as the board may allow.	There is no restriction on time limit in case of Sec. 75.
Minimum value addition criterion	There is no criterion of minimum value addition, which is to be fulfilled before export for claim of drawback as per Sec. 74.	It has been specifically provided that there should not be negative value addition and in case where minimum value addition is specified the same should be achieved for claim of drawback as per Sec. 75.
Receipt of sale proceeds by exporter	Sec. 74 provides no condition regarding receipt of sale proceeds by exporter.	As per Sec. 75, the sale-proceeds in respect of such goods on which the drawback has been allowed, have to be received by the exporter or by any person on his behalf within the period as specified in the FEMA, 1999.

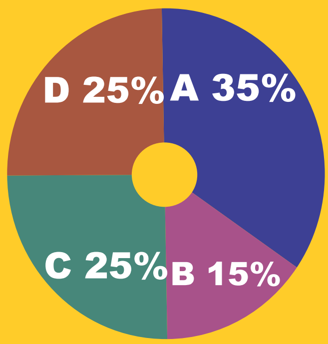
Group - IV
Paper - 19
Cost & Management Audit (CMAD)

CMA S S Sonthalia,
Practicing Cost Accountant
Bhubaneswar
He can be reached at:
Sonthalia_ss@yahoo.co.in

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

Topic: Cost Audit and Related Party Transactions.

In today's economic context understanding, examining and reporting related party transactions assumes larger responsibility on the part of cost accountants doing the cost audit and reporting the same in his/her report. The issues carry more significance with regard to reporting of Transfer price and its comparison with Normal price as the related party transactions have the tendency to influence the decision of the management on transfer price.

Form CRA – 1, Para 24 of the Companies (Cost records and Audit) Rules, 2014, contain the provisions with regard to maintenance of cost records with respect to Related party transactions. Therefore it is imperative for the cost auditor to first identify the related parties and the transactions with them covering the period of audit.

As per the Para the Related Party means the related party as defined under clause (76) of section 2 of the Companies Act, 2013 (18 of 2013).

As per section 2 (76) of the Companies Act, 2013, the term "related party" to mean:

- A director or his relative
- KMP or his relative
- A firm, in which a director, manager or his relative is a partner
- A private company in which a director or manager is a member or director
- A public company in which a director or manager is a director and holds along with his relatives, more than 2% of its paid-up share capital
- A body corporate whose board, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager, except if advice/ directions/ instructions are given in the professional capacity
- Any person on whose advice, directions or instructions a director or manager is accustomed to act, except if advice/ directions/ instructions are given in the professional capacity
- Any company which is:
  - A holding, subsidiary or an associate company of such company, or
  - A subsidiary of a holding company to which it is also a subsidiary
- Such other persons as may be prescribed.

As per the paratransactions or supplies made or services rendered by a company to a company or a person termed as "related party"or vice-a-versa, shall records and maintainthe contracts entered into, or the agreements orunderstanding reached with such partiesin respect of the following type of transactions.

Purchase and sale of raw materials, finished goods, rendering of services, process materials and rejected goods including scraps and other related materials;

Utilisation of plant facilities and technical know-how;

Supply of utilities and any other services;

Administrative, technical, managerial or any other consultancy services;

Purchase and sale of capital goods including plant and machinery; and

Any other payment related to the production of goods or rendering of services under reference.

The records shall also indicate the basis followed for arriving at the rates charged or paid for such goods or services so as to enable determination of the reasonableness of such rates with normal price.

"Normal" price means price charged for comparable and similar products in the ordinary course of trade and commerce where the price charged is the sole consideration of sale and such sale is not made to a related party. Normal price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence, though the partiesmay have shared interest.

Further the basis adopted to determine the Normal price shall be classified amongst one of the following methods.

(i) Comparable uncontrolled price method;
(ii) Resale price method;
(iii) Cost plus method;
(iv) Profit split method;
(v) Transactional net margin method; or
(vi) Any other method, to be specified.

Reporting as per CRA 3 of Companies (Cost records and Audit) Rules, 2014,
Part – D, Para 5 - RELATED PARTY TRANSACTIONS (for the company as a whole)

1. Sl. No
2. Name and address of Related party
3. Name of the Product / Service group
4. Nature of Transactions (Sale / Purchase etc.)
5. Quantity
6. Transfer price
7. Amount
8. Normal price
9. Basis adopted to determine the normal price.

The may be a single transaction or multiple of transactions during the year under audit with one or more related parties. Each transactions needs to be reviewed as per the above provisions. Further details can be cross checked with annual accounts of the company as the transactions with related parties needs to be disclosed in the annual accounts. While the responsibility with statutory financial auditor primarily rests with regard to disclosure in annual accounts. The responsibility with statutory cost auditor primarily rests with regard to reasonableness of transactions.

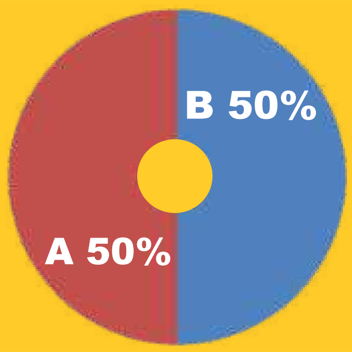
Group - IV
Paper - 20
Strategic Performance Management and Business Valuation (SPBV)

Dr. Amalendu Bhunia
Professor,
Department of Commerce
University of Kalyani,
He can be reached at:
bhunia.amalendu@gmail.com

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

I strongly recommend getting your basics from study materials first and then moving over in solving numerical sums from professional examinations in the last 5 terms.
Internationally famous books and video tutorials have no substitute.
Learn alone but discuss with your fellow 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!

Agency Costs and Leverage

According to the agency theory, agency clashes take place from the probable discrepancy of interest between shareholders (principals) and managers (agents) of firms. The most important responsibility of managers is to run the company in such an approach that it makes returns to shareholders in this manner rising the profitability and cash flows (Elliot and Elliot, 2002). Because of this discrepancy in their interests, decisions prepared by the management may not bring about wealth maximization for all the parties.

Agency costs

Agency costs in a firm can take place because of conflicts of interest between the management and shareholders, this is called Type I agency problems. Conflicts between the majority shareholders and the minority shareholders are Type II agency problems. Again, Conflicts between the shareholders and the external stakeholders. The agency problem can be stopped by market forces and agency costs. Agency costs is the total amount of the monitoring costs by the principal (shareholders), the bonding costs by the agent (managers) and the residual loss. Agency costs visible in different shapes, for example, slumps in productivity, incompetencies of free cash flow, managerial benefits, loss of firm value, etc. Monitoring costs in terms of cost of auditing, managers compensation and finally hiring cost paid by the shareholders are costs to evaluate, examine and manage the managers activities. Bonding costs means the structures that management in due course sets up to force them to perform in shareholders' best interests and comprises compensating shareholders in the occasion of failure to perform by itself. Residual loss means residual agency losses that take place from clashes of interest after both monitoring and bonding measures have been achieved.

The importance of agency cost is that it assists alleviate the consequences of the agency problem. According to Baker and Powell (2005) agency problem is the difficulties faced by financiers in ensuring that their funds are not confiscated or wasted on distasteful projects. They divides agency costs into direct and indirect agency cost. Principal (shareholder) incur direct costs so as to decrease prospective clashes with managers (audit fees, bonus, stock option plan, executive inducements and infrastructure) put ready to control the managers' activities. Indirect agency cost is as an effect of manager's failure to create gainful investment in terms of mismanagement of free cash flow (Atumwa, 2011).

Leverage

According to Boodhoo (2009), the role of agency cost theory is that leverage firms are healthier for shareholders because debt level can be utilized for monitoring the managers. Consequently, higher leverage is anticipated to lower agency costs, decrease incompetence and thus direct to progress in corporate performance. Financial leverage is the percentage of capital that is financed by debt as contrasting to equity. When the leverage is high, the debt capital is also high in the capital structure of a company. The debt comes in the company in the form of bank loan, debt capital, overdraft, lease, convertible debts, notes and bills for the long-run and short-run period. The use of debt capital positively influences on agency cost in numerous ways, say for example, the use of debt capital decreases the free cash flow presented to managers because interest paid to the debtholders reduce free cash flow obtainable for investment as well as privilege spending by managers. The shrink in free cash flow moreover assists in shortening overinvestment dilemma. Again, the use of debt capital can enhance monitoring of managers by the debtholders that put force on managers to run the business in a beneficial way. Finally, rising the insolvency risk pressures the managers to optimize decision making. Because the creditors have legal right to take a company to court if the company fails to credit the claims of creditors. This makes a risk for managers of losing their works in the occasion of liquidation of the company. It ultimately put presure the managers to run business in a profitable manner and and stop the use of business resource in their personal interest.

Agency cost and leverage

Debt reduces agency cost since the creditors of the company are more worried about equity owner and payments of interest. These creditors more frequently check the managers' actions to defend the company from becoming insolvent. This decreases the agency cost of the company. Again, augmented debt in a company decreases agency costs by restricting discretionary cash flow obtainable to managers as well as close monitoring by the debt-holders. The length of the debt contract furthermore provides as a technique that could be employed to alleviate agency costs. Generally, agency costs are lowest for short-term debts. Consistent with the agency theory, the higher debt ratio reduces agency cost by aligning the best interests of managers and shareholders thus, confirming that there is pessimistic association between agency cost and leverage. It has been observed that augment in the debt a little bit result in enhance in the bankruptcy cost because the enhances in the debt level decrease the agency cost but raise the bankruptcy cost. This ultimately decreases the cash flow.

It is important to note that there is a conflict between the interest of managers and shareholders concerning the expenditure of the free cash flow. In this way there exists an opposite affiliation between leverage and agency cost. According to free cash flow theory, unlevered firms with free cash flow accept high agency cost than the leveraged firm.

Fatma (2011) stated that the debt policy is the main mechanism of controlling the free cash flow problem of the company. She concluded that the managerial ownership can be exercised to decrease the agency cost associated to free cash flow.

Ineffective use of too much cash that is based on higher than usual leverage level for domain building raises agency costs.

Utami and Inanga (2011) showed that the agency costs of free cash flow have positive significant association with leverage. Companies that borrow small amount of funds for short-period may reduce agency costs but borrowing of larger debt for long-period raises agency costs.

According to trade-off theory, when the level of debt is increased, the agency cost is increased along with insolvency. In that case, company performance and its value have been decreased.

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

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

Personality Stance

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

01.00 Thomas Alva Edison

I am astonished to learn that Thomas Alva Edison had only three months of schooling before he was considered by his teacher, “too stupid to learn”, and was sent home. Nancy Edison – Thomas's mother, became very mad and decided to teach Thomas herself. However, she did encourage him to be self-educated. So, he spent most of his time in the library reading books, especially scientific books. His mother later bought him the Dictionary of Science, and he read it all.

Before Thomas Alva Edison was ten, he had already read History of England, Decline and Fall of the Roman Empire, History of the World, Burton's Anatomy Of Melancholy, The Age of Reason and a number of works on Practical Chemistry. Likewise, when he was ten years old he set up his own chemical laboratory in the basement of his house. At the same time, life for Thomas was not an easy one. When he was twelve, he took up a job as a newspaper boy. He sold newspapers, candy, books, fruits, and other snacks to passengers of trains.

At fifteen, Thomas purchased a small printing press located at the train station. His turning point came when he rescued the son of the railway station-master. To show his appreciation to Edison, the station-master taught Edison the art of telegraphy. Eventually, when Edison was seventeen, he became one of the most expert telegraph operators.

Edison continued to spend time and money on self-improvement, and as a result he gained the equivalent of many college degrees, although he had only three months of formal education. Edison realized his weakness and used the brains of others. He had a pool of 61 talented people, consisting of chemists, engineers, model makers, scientists, mathematicians and skilled mechanics. During his lifetime, he patented more than 1,100 inventions.

One of his inventions was the electric light bulbthat changed the world and technology forever. Thomas succeeded in this invention only after failing more than 10,000 times. Thereafter, everyone accepted that Thomas was a wizard, and gave him the name "Wizard of Menlo Park".

02.00 Personality

Personality is the combination of characteristics or qualities that form an individual's distinctive character. Personality reflects 'Wisdom in Reality'. Personality reflectors include multi-dimensional aspectssuch as knowledge, maturity, communication, team play, skill traits and also the looks

02.01 Knowledge

Knowledge refers to the exposition, facts, information, and skills acquired by a person through education and experience. Knowledge includes the theoretical aspects as also the practical understanding of a subject. Knowledge is divine; Knowledge is eternal; and Knowledge reflects the intrinsic strengths of an individual. In relation to any career planning, knowledge may be split into two parts, viz. knowledge relating to the subject proper and knowledge relating to general topics.

Knowledge is divine; Knowledge is eternal; and Knowledge reflects the intrinsic strengths of an individual.

02.02 Maturity

Maturity is the ability to respond to a situation in an appropriate manner. This response is generally instinctive. Maturity comes out of thoughtful application of knowledge, diligent mental balance, flexible approach towards consideration of issues, contained temperament and reasoned logic. Maturity is the attitude that can be articulated through experience and exposure. A mature person is perceived to possess the ability to keep up long-term commitments in a fair manner.

Maturity is the ability to respond to a situation in an appropriate manner.

02.03 Communication

Effective communication adds value to personality. Every career crafter should understand and carve out basic communication skills. Your body stance, words, and voice

Effective communication adds value to personality.

are the primary reflectors of your communication whereas clarity about the contents of the subject matter reveals your thoroughness.

02.04 Team Play

One of the challenges facing the enterprises, all across, is to find team-oriented employees. Team Play inculcates team orientation. Team playrefers to the collective efforts of the team members with mutual support to each other.

Team play refers to the collective efforts of the team members with mutual support to each other.

A team is defined as group of individuals who are committed to achieving common goals; who meet regularly to identify and solve problems; who work and interact effectively together; and who produce optimal economic and motivational results. Impact of team play is visible when a group of players with mediocre talent outperforms a team of superstars. The factors of team play include leadership, adaptability and team spirit.

02.05 Skill Traits

Skill Traits, in our analysis, refer to language proficiency and any special skills that you may possess over your peers. Proficient language propels oratory skills leading to an edge in your convincing power. Special skills such as knowing an additional alien language, related vocational skills, etc. provide you an added advantage on your competitors.

Skill Traits refer to language proficiency and any special skills that you may possess over your peers.

02.06 Looks

Recall the age old saying 'First impression is the best impression'. It is your looks that give out the first impression about you. Looks refers to your external appearance. It is a mixture of your attire, expressions and confidence.

Looks refers to your external appearance.

Attire is the dress code and refers to the clothing that you wear. Attire is to differ from occasion to occasion and from place to place. Depending on the occasion and place, the dress codes range from traditional and formal to smart casual, business casual, and casual. Expression is the manner or form in which a thing is expressed. Expressions include words and phrases as also the gestures and postures. Expressions are a part of nonverbal communication skills. Confidence is the feeling of self-assurance arising from one's appreciation about one's own capabilities. Confident people end to inspire confidence in their audience, their peers, their bosses, their customers, and their friends. And gaining the confidence of others is one of the important means in which a self-confident person carves out success.

03.00 Evaluation of Personality

Now is the stage to have a comprehensive self-evaluation of your personality. Mirror out your own evaluation in terms of a true assessment of your overall personality. Allot marks for each of the attributes and draw your score in comparison to the bench mark. Analyze your current situation. Before you can even do any planning, clearly and realistically identify your starting point.

The desirable assignment, to your personality stance, in a total score of 200is 50 marks for knowledge, comprising 30 for the subject and 20 for the general; 25 for maturity at the rate of 5 being awarded to each of the constituents i.e. thoughtfulness, mental balance, flexibility, temperament and logic; 25 for communication consisting of 6 for body stance, 6 for words, 6 for voice and 7 for contents; 25 for team play by earmarking 13 for leadership and 6 each for adaptability and team spirit; 25 for skill traits comprising 12 marks for language proficiency and 13 marks for social skills; and 25 marks for looks comprising 9 for attire, 8 for expressions and 8 for confidence.

Appended hereto is a Model Personality Evaluator that charts out the details of Mr. Anan, an illustrative character of Cost Manger.

04.00 Quick Take

Recall the fact that Thomas Alva Edison is the 'Visionary' who had beenwritten-off as 'Stupid' by his school teacher. Education alone will not make you successful, although it helps lot. Edison was successful because he was creative and had carved out a strong inventive personality. Gear yourself to Get Set GO. Thomas Alva Edison is staring at you. Here is Wishing you all the very Best!

Model Personality Evaluator

Serial		Item	Max. Score	Assessed Score	Remarks
1	**Knowledge**				
	a	Subject Knowledge	30	25	Good
	b	General Knowledge	20	16	Good
	c	Sub Total	50	41	Good
2	**Maturity**				
	a	Thoughtfulness	5	4	Good
	b	Mental Balance	5	4	Good
	c	Flexibility	5	3	Average
	d	Temperament	5	3	Average
	e	Logic	5	4	Good
	f	Sub Total	25	18	Fair
3	**Communication**				
	a	Body Stance	13	11	Good
	b	Words	12	10	Good
	c	Voice	12	10	Good
	d	Clarity	13	11	Good
	e	Sub Total	50	41	Good
4	**Team Play**				
	a	Leadership	13	9	Fair
	b	Adaptability	6	5	Good
	c	Team Spirit	6	5	Good
	d	Sub Total	25	19	Fair

5	**Skill Traits**				
	a	Language Proficiency	12	10	Good
	b	Special Skills	13	11	Good
	c	Sub Total	25	21	Good
6	**Looks**				
	a	Attire	9	7	Fair
	b	Expressions	8	6	Fair
	c	Confidence	8	6	Fair
	d	Sub Total	25	19	Fair
7	**Total**		200	160	Good

Rating criteria: 95% and above = Excellent; 90% to 94% = Very Good; 80% to 89% = Good; 65% to 79% = Fair: 50% to 64% = Average

Submission

Dear Students,

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

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

CMA Vijay Pal Singh
vijay007pal@gmail.com

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

Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Day & Date	Final Examination Syllabus-2012 Time 2.00 p.m. to 5.00 p.m.	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
10th Dec, 2017 Sunday	Corporate Laws and Compliance	Corporate Laws & Compliance
11th Dec, 2017 Monday	Advanced Financial Management	Strategic Financial Management
12th Dec, 2017 Tuesday	Business Strategy & Strategic Cost Management	Strategic Cost Management-Decision Making
13th Dec, 2017 Wednesday	Tax Management & Practice	Direct Tax Laws and International Taxation
14th Dec, 2017 Thursday	Strategic Performance Management	Corporate Financial Reporting
15th Dec, 2017 Friday	Corporate Financial Reporting	Indirect Tax Laws & Practice
16th Dec, 2017 Saturday	Cost & Management Audit	Cost & Management Audit
17th Dec, 2017 Sunday	Financial Analysis & Business Valuation	Strategic Performance Management and Business Valuation

Message from the Directorate of Studies

Dear Students,

Your December term of examination is almost "knocking the door". Those who will be appearing in your forthcoming term of examination, we are sure, they are almost prepare to face the challenges of this professional course and busy in their last time preparation!

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

Take the examination seriously but don't be panicky. Please try to follow the general guidelines, mentioned below; which may help you to get success in your examination.

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 core concepts,
- The candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination,
- To strengthen the answers candidates are advised to give answers precisely and in a structured manner,
- In-depth knowledge about specific terms required. Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Be Prepared and Get Success;

GOODBYE AND GOOD LUCK TO ALL OF YOU!

PHOTO GALLERY

Glimpses of CFO & HR Discussion Meet - Skill Development & Employability-Agenda for Economic Development organized by the Institute at Bhubaneswar on 22.10.2017.

Glimpses of CFO & HR Discussion Meet - Skill Development & Employability-Agenda for Economic Development organized by the Institute at Bhubaneswar on 22.10.2017.

PHOTO GALLERY

Tashia Batstone, CPA Canada Senior Vice-President, External Relations and Business Development being welcomed by CMA Sanjay Gupta, President of the Institute.

CMA Sanjay Gupta, President, CMA Amit A. Apte, CCM and CMA P. Raju Iyer, CCM met Dr. Viral V. Acharya, Dy Governor, Reserve Bank of India regarding matters of the profession

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016
Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143
Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003
Phone: +91-11-2462-2156/2157/2158

Behind every successful business decision, there is always a CMA