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CMA STUDENTS' E-BULLETIN

FINAL

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA


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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Contents

Message from the Chairman

Dear Students,

A ***very Happy, Healthy & Prosperous New Year.*** Believe in yourself and hope you achieve everything in this year.

"Excellence is not a skill, it is an attitude". Education provides knowledge, knowledge gives power, power gives respect and finally, respect provides the ultimate happiness. So, all the qualities are bonded in chain and until and unless you are acquiring real knowledge, you are not been able to reach to your destination and cannot enjoy your life fully. There might be mistakes but I believe in that mistakes are proof that you are trying. Do it now, sometimes later becomes never. ***'Minds are like parachutes they only function when they are open'.***

"Learning is not child's play; we cannot learn without pain" as told by Aristotle." You are receiving your study related input on each subject and these are given by academicians of repute. My suggestion to all of you is; be serious and read all the topics meticulously. Mock Test Papers (MTPs) are also uploaded by the Directorate of Studies to help you to get acquainted with the pattern of questions you may face in your examination. I believe that all of you are equally capable to get success in the examination provided you prepare sincerely and pay needed attention towards the resources being provided by the Directorate of Studies. ***"The future belongs to those who believe in the beauty of their dreams".***

May this year illuminate your life in your own ways and being an optimist take the resolution of delivering your best and put your mark in the 'Make in India' movement.

Wishing you Goodluck and Happiness,

CMA Manas Kumar Thakur

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

Be a CMA, be a Proud Indian

!! Happy New Year !!

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STUDENTS' E-bulletin Final JANUARY 2018, ISSUE

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2018

!! Happy New Year !!

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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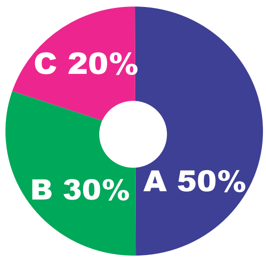
Your Preparation Quick Takes



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.

ACCOUNTS OF COMPANIES

1.0 ACCOUNTS:

Accounts are record of financial transaction of a company and needs to be finalised every year for a particular period commonly known as "accounting period". As per Companies Act, all companies shall follow an accounting year commencing from 1st April to 31st March.

1.1 The proper books of account.

Every company shall maintain proper books of accounts which must satisfy the following:

(i) True and fair view should be recorded.

(ii) Accrual basis accounting: the income and expenditure should relate to particular period year even when they are received paid in the same year.

(iii) Shall exhibit and explain the financial position.

(iv) These shall disclosure relating to goods, i.e. goods sold, purchased etc.

(v) Shall be prepared in ink and not in pencil.

(vi) Shall be as per the accounting standard prescribed by the Central Government. It may be mentioned that Central Govt. has the power to prescribe accounting standards i.e. all companies should have uniform method of interpretation and calculation of profit valuation of assets, depreciation etc. Presently the standards issued by the Institute of Chartered Accountants of India is the applicable accounting standards.

(vii) Shall be kept in electronic form also.

1.2 Keeping of books of account :

Books of accounts may be kept at the registered office of the company or any other place(s) in India as decided by the Board of Directors. The company shall within 7 days file with the Registrar a notice in writing giving the full address of the place. If the company has any branch office within or outside India proper returns of such branch offices shall be sent periodically to head office.

1.3 Contents of books of account.

As per section 128 of the Companies Act, 2013, every company shall keep proper books of account in respect of the following:

(i) All receipts and expenditures made by the company.

(ii) The sale and purchase of the goods by the company.

(iii) The assets and liabilities of the company.

(iv) If the company is engaged in manufacturing, processing, production or mining activities the cost accounting records as prescribed by the Central Govt.

1.4 Consolidation of Accounts:

As per section 129(3) of the new Act, Every company having more than one subsidiary shall prepare a consolidated financial statement of the company with all its subsidiaries in the same form and manner as that of its own which shall also be laid in the before the annual general meeting of the company along with the standalone financial statement of the company. The consolidated financial statement should contain the financial information relating to its subsidiaries, its associates companies and its joint ventures. The consolidated financial statement should be in Form AOC-1.

1.5 Annual accounts and legal requirements (Section 129 and 130)

(1) **Laying of annual accounts in the AGM:** A balance sheet as at the end of the financial year and a profit and loss account along with the cash flow statement and statement showing changes in equity of the company for the financial year shall be laid before the AGM for the approval and adoption of the shareholders. Along with financial Statements consolidated financial statements of all the subsidiaries including Associate Companies and joint ventures of the company shall be laid before the Annual General Meeting.

(2) The Forms and contents of the financial statements will be as per Schedule III.

1.6 Authentication of Balance sheet and Profit & loss account (section 134)

As per the new Companies Act, 2013 all the financial statements including the consolidated financial statement shall be required to be signed by the following persons:

(i) By the Chairperson of the Company, where he is authorised by the Board.

(ii) By two Directors out of which one shall be Managing Director, if any.

(iii) Chief Financial Officer and Company Secretary of the Company, if required.

1.7 Circulation of Annual accounts (section 136)

The company shall send the copies of the financial statements including consolidated financial statements to the members and every trustee for the debenture holder.

In addition to the above the company is required to place its financial statements including consolidated financial statements, if any, and all other documents required to be attached, thereto on the website of the company.

Further every company is also required to place separate audited accounts in respect of each of its subsidiary, if there is any.

Every company is required to keep its financial statements at the registered office of the company for inspection by any member and debenture trustee during business hours. A listed company may send only the salient features of the documents and keep the document for inspection as above.

1.8 Filling of Financial Statements (including consolidated financial statements) with Registrar of Companies (section 137)

(a) within 30 days of Annual General Meeting.

(b) If AGM is not held within 30 days of the day on which the AGM is ought have been held. The Registrar shall take on record the un-adopted financial statements as provisional statements till the accounts are adopted in the Annual General Meeting.

(c) If the AGM held but the annual accounts are not prepared on that date the AGM shall be adjourned till the accounts shall prepared but such adjournment shall not be beyond the statutory period of AGM i.e. 18 months.

(d) If the AGM is held but did not approve the annual accounts the accounts shall be filed within 30 days of the AGM specifying the reason of disapproval.

(e) One person company shall file its financial statements along with all its necessary documents required to be attached with its financial statements to the registrar within 180 days of the closure of financial Year.

(f) As per the new Act every company from now on shall attach financial statements of each of its subsidiary which are established outside India and do not have any place of business in India.

1.9 Accounts of Holding and Subsidiary companies :

Along with the balance sheet of the holding company the following documents of the subsidiary company shall be attached:

(a) a copy of the balance sheet, profit & loss account, director's report.

(b) A copy of the auditor's report.

(c) A statement of the holding company's interest in the subsidiary.

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

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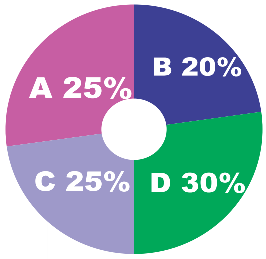
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

- *compute security return and risk*
- *calculate portfolio return and risk*

Strategic Financial Management

Illustration 1

Calculate mean returns and standard deviation of returns for the following individual stocks.

YEAR	STOCK-X(%)	STOCK-Y (%)
2011	12.40	-19.00
2012	7.20	-23.40
2013	8.00	27.60
2014	4.80	-10.60
2015	0.40	19.00

Solution

Table showing the necessary calculations

YEAR	RETURN(Xi)	RETURN(Yi)	$(X_i \quad \bar{X})^2$	$(Y_i \quad \bar{Y})^2$
2011	12.40	-19.00	34.11	314
2012	7.20	-23.40	0.41	489.29
2013	8.00	27.60	2.07	834.05
2014	4.80	-10.60	3.10	86.86
2015	0.40	19.00	37.95	411.28
	32.80	-6.40	77.64	2135.48

Mean return from stock X = $\Sigma X_i/n$ =32.80/5 = 6.56%

Mean return from stock Y = $\Sigma Y_i/n$ =-6.40/5 = -1.28%

$\sigma x^2 \quad (X_i \quad \bar{X})^2 / n \quad 1$ =77.64/4 =19.41

$\sigma x^2 \quad (Y_i \quad \bar{Y})^2 / n \quad 1$ =2135.48/4 =533.87

Standard deviation of returns from stock X (σx) $=\sqrt{19.41}$ =4.41%

Standard deviation of returns from stock Y (σy) $=\sqrt{533.87}$ =23.11%

Illustration 2

On the basis of the results from illustration 1, find out the portfolio return and portfolio risk assuming that

(i) weights are equal in both the stocks
(ii) weights are not given

Solution

(i) Table showing the necessary calculations for covariance

YEAR	$(X_i \quad \bar{X})$	$(Y_i \quad \bar{Y})$	$(X_i \quad \bar{X})(Y_i \quad \bar{Y})$
2011	5.84	-17.72	-103.48
2012	0.64	-22.12	-14.16
2013	1.44	28.88	41.59
2014	-1.76	-9.32	16.40
2015	-6.16	20.28	-124.92
			-184.57

$W_x = 0.5$ $W_y = 0.5$

Covariance (x,y) = $\Sigma(X_i \quad \bar{X})(Y_i \quad \bar{Y}) / (n-1)$

$= -184.57/4 = -46.14$

Portfolio return (Rp) = $W_X \bar{X} \quad W_Y \bar{Y}$

$=1/2*6.56 +1/2*(-1.28)$

$=3.28-0.64 =2.64\%$

Variance of return (σp^2) = $w_x^2\sigma_x^2 + w_y^2\sigma_y^2 + 2w_x w_y \sigma_{xy}$

$= (0.5)^2(19.41) + (0.5)^2(533.87) + [2*0.5*0.5*(-46.14)]$

$= 4.85 + 133.47 - 23.07 = 115.25$

Portfolio risk (σp) is given by the Standard Deviation of return $= \sqrt{115.25} = 10.74\%$

(ii) Correlation coefficient $(\rho_{xy}) = \sigma_{xy} / \sigma_x\sigma_y$

$= -46.14/ (4.41*23.11) = -0.45$

$W_x = \sigma_y^2 - \sigma_x\sigma_y\rho_{xy} / (\sigma_x^2 + \sigma_y^2 - 2\sigma_x\sigma_y\rho_{xy})$

$$\frac{533.87 \quad 4.41*23.11* \quad 0.45}{19.41 \quad 533.87 \quad 2*4.41*23.11* \quad 0.45}$$

$= 0.90$

$W_y = 1 - W_x = 1 - 0.90 = 0.10$

$R_p \quad W_x \bar{X} \quad W_y \bar{Y}$

$= 0.90*6.56 + 0.10*(-1.28)$

$= 5.904 - 0.128 = 5.78\%$

$\sigma p^2 = W_x^2\sigma_x^2 + W_y^2\sigma_y^2 + 2W_xW_y\sigma_{xy}$

$= (0.90)^{2}*19.41 + (0.10)^{2}*533.87 + 2*0.90*0.10*(-46.14)$

$= 15.72 + 5.3387 - 8.3052 = 12.7535$

$\sigma p = \sqrt{12.7535} = 3.57\%$

Illustration 3

From the following information calculate the expected return, variance and standard deviation for a portfolio consisting of 50% in stock-A and 50% in stock-B.

Economic conditions	Conditional return from stock-A	Conditional return from stock- B	Probability
Recession	-20%	-30%	1/3
Growth	30%	10%	1/3
Boom	80%	50%	1/3

Solution

Table showing the necessary calculations for Standard Deviation of Stock A

Economic conditions	Conditional return from stock-A(R_A)	Prob.(P)	R_A*P	R_A –E(R_A)	[R_A-E(R_A)]^2	P* [R_A-E(R_A)]^2
Recession	-20	1/3	-20/3	-50	2500	2500/3
Growth	30	1/3	30/3	0	0	0
Boom	80	1/3	80/3	50	2500	2500/3
			30			1667

Expected return from Stock A [E(R_A)] = 30%
Variance of return from Stock A [Var(R_A)] = 1667
SD of return from Stock A (σ_A) =$\sqrt{1667}$ = 40.82%
Table showing the necessary calculations for Standard Deviation of Stock B

Economic condition	Conditional return from stock-B	Prob.	R_B*P	R_B-E(R_B)	[R_B-E(R_B)]^2	P* [R_B-E(R_B)]^2
Recession	-30	1/3	-30/3	-40	1600	1600/3
Growth	10	1/3	10/3	0	0	0
Boom	50	1/3	50/3	40	1600	1600/3
			10			3200/3

Expected return from Stock B [E(R_B)] = 30%
Variance of return from Stock B [Var(R_B)] = 1067
SD of return from Stock B (σ_B) =$\sqrt{1067}$ = 32.66%

Table showing the necessary calculations for Covariance

$R_A - E(R_A)$	$R_B - E(R_B)$	Prob.(P)	$P*[R_A - E(R_A)][R_B - E(R_B)]$
-50	-40	1/3	2000/3
0	0	1/3	0
50	40	1/3	2000/3
			4000/3 = 1333

$Cov(R_A R_B) = \Sigma P[R_A - E(R_A)][R_B - E(R_B)] = 1333$

$W_A = 0.5 \quad W_B = 0.5$

$Rp = W_A E(R_A) + W_B E(R_B)$

$= 0.5*30 + 0.5*10 = 15 + 5 = 20\%$

$\sigma p^2 = W_A^2 \sigma_A^2 + W_B^2 \sigma_B^2 + 2W_A W_B \sigma_{AB}$

$= (0.5)^2*1667 + (0.5)^2*1067 + 2*0.5*0.5*1333 = 416.75 + 266.75 + 666.5 = 1350$

$\sigma p = \sqrt{1350} = 36.74\%$

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STUDENTS' E-bulletin Final JANUARY 2018, ISSUE 10

VOL: 3, No.: 1

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

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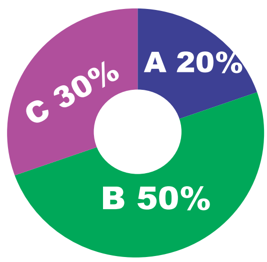

Syllabus Structure

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?

A Take on ABC

01.0 ConceptProducts consume Activities and Activities consume Costs Activity Based Costing has been evolved with a view to overcome the limitations of traditional costing systems. CIMA defines Activity Based Costing as, 'cost attribution to cost units on the basis of benefit received from indirect activities e.g. ordering, setting up, and assuring quality.' One more definition of Activity Based Costing is, 'the collection of financial and operational performance information tracing the significant activities of the firm to product costs.'

Products consume Activities and Activities consume Costs

The activity based costing system assumes that products consume activities and activities consume costs. It leads to more precise allocation of manufacturing overheads amongst the products. Activity-based costing provides a means to collect indirect costs in multiple categories and then applies the results individually to the products and services. By using multiple overhead pools and cost drivers, activity-based costing can provide more accurate cost figures for costing and pricing the products and services. Activity may be considered as the cost pool of convenience; and cost driver is the factor that impacts the cost of activity.

The concept ABC may be better elaborated with help of an examination problem drawn from Paper 17, Strategic Performance Management, December 2013.

02.00 Problem

The Budgeted overheads and Cost driver volumes of XYZ are as follows:

Cost pool	Budgeted Overheads (Rs.)	Cost Driver	Budgeted Volume
Material Procurement	5,80,000	No. of orders	1,100
Material Handling	2,50,000	No. of movements	680
Set-up	4,15,000	No. of set-ups	520
Maintenance	9,70,000	Maintenance hours	8,400
Quality Control	1,76,000	No. of inspections	900
Machinery	7,20,000	No. of Machine hours	24,000

The company has produced a batch of 2,600 components of AX-15. Its material cost was Rs. 1,30,000 and labour cost Rs. 2,45,000.The usage activities of the said batch are: Material orders-26,Maintenance hours-690, Material movements-18, Inspections-28, Set-ups-25 and Machine hours-1,800. Calculate Cost Driver Rates that are used for tracing appropriate amount of overheads to the said batch and ascertain the cost of the batch.

03.00 Solution

Step I: Computation of Cost Driver Rates

Serial	Cost pool	Budgeted Overheads (Rs.)	Cost Driver	Budgeted Volume	Working	Rate
1	Material Procurement	5,80,000	No. of orders	1,100	580000 /1100	527.27
2	Material Handling	2,50,000	No. of movements	680	250000 /680	367.65
3	Set-up	4,15,000	No. of set-ups	520	415000 /520	798.08
4	Maintenance	9,70,000	Maintenance hours	8,400	970000 /8400	115.48
5	Quality Control	1,76,000	No. of inspections	900	176000 /900	195.56
6	Machinery	7,20,000	No. of Machine hours	24,000	720000 /24000	30.00

Step II: Apportionment of Overheads to the Batch of 2600 components of AX-15

Serial	Activity	Cost Driver	Usage	Rate	Working	Overhead(Rs.)
1	Material Procurement	No. of orders	26	527.27	26 x 527.27	13,709
2	Material Handling	No. of movements	18	367.65	18 x 367.65	6,618
3	Set-up	No. of set-ups	25	798.08	25 x 798.08	19,952
4	Maintenance	Maintenance hours	690	115.48	690 x 115.48	79,681
5	Quality Control	No. of inspections	28	195.56	28 x 195.56	5,476
6	Machinery	No. of Machine hours	1800	30	1800 x 30	54,000
7	**Total**					**1,79,436**

Step III: Cost of the Batch

Cost Sheet of Batch of 2600 components of AX-15

Serial	Particulars	Cost (Rs)	Cost (Rs)
1	Prime Cost		
	(i) Material Cost	1,30,000	
	(ii) Labour Cost	2.45,00	
	(iii) Sub Total		3,75,000
2	Over Heads		
	(i) Material Procurement	13,709	
	(ii) Material Handling	6,618	
	(iii) Set-up	19,952	
	(iv) Maintenance	79,681	
	(v) Quality Control	5,476	
	(vi) Machinery	54,000	
	(vii) Sub Total		1,79,436
3	**Total Cost**		**5,54,436**

04.00 Learning

The problem provides the data about the Direct Costs, Cost Pools of the Activities, Budgeted Overheads for each of the cost pools, Relevant Cost Drivers and Budgeted Volume of the each of the Cost Drivers. On the basis of the given data the solution works out the Batch Cost in three stepsviz. (i) Computation of the Cost Driver Rates, (ii) Apportionment of the Overheads to the Batch and (iii) Batch Cost Sheet.Thus the problem and the solution demonstrate a model that synchronizes with the implementation of ABC in terms of vital steps comprising:

1. Identification of Cost Objects
2. Identification of Activities and Cost Pools
3. Tracing the Direct Costs
4. Determining the Activity Cost Drivers
5. Calculating the Activity Cost Driver Rates
6. Apportionment of Activity Costs on the basis of Usage
7. Computing the Total Cost

They problem is a good example for examination practice.

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

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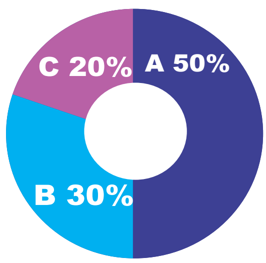

Syllabus Structure

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.

Business Restructuring: Amalgamation

Definition [Sec. 2(1B)]

Amalgamation (in relation to companies) means:

the merger of one or more companies with another company; or

the merger of two or more companies to form one company;

in such a manner that—

(a) all assets and liabilities of the amalgamating company or companies immediately before the amalgamation becomes the assets and liabilities of the amalgamated company;

(b) shareholders (both equity or preference) holding not less than 75% in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders (equity or preference) of the amalgamated company.

- Number of shares allotted to the shareholders of the amalgamating company by the amalgamated company is not relevant.
- Where C Ltd. merges with Z Ltd., in a scheme of amalgamation, and immediately before the amalgamation, Z Ltd. holds 20% of the share in C Ltd., the aforesaid mentioned condition will be satisfied if shareholders holding not less than ¾th (in value) of the remaining 80% of the shares in C Ltd., i.e., 60% thereof (3/4 x 80), become shareholders of Z Ltd., by virtue of the amalgamation. Where, however, the whole of the share capital of a company is held by another company, the merger of the two companies will qualify as an amalgamation within sec. 2(1B), if the other two conditions are satisfied [Circular 5P, dated 9-10-67]

***Exceptions*:**

Following mergers shall not be treated as amalgamation -

Merger as a result of acquisition of the property of one company by another company pursuant to the purchase of such property by the other company; or

Merger as a result of distribution of such property to the other company after the winding up of the first-mentioned company.

Amalgamation & Shareholder of amalgamating company

Effect of amalgamation on a shareholder are as under:

Transfer of shares of amalgamating company	As per sec. 47(vii), any transfer by a shareholder, in a scheme of amalgamation, of share(s) held by him in the amalgamating company is not treated as transfer and hence not liable to capital gain tax, if following conditions are satisfied: I The transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company; and ii. The amalgamated company is an *Indian* company.
Cost of shares in amalgamated company	The cost of shares in amalgamating company shall be deemed to be the cost of shares in amalgamated company. [Sec. 49(2)]

Determination of nature of assets	To find whether shares in amalgamated company are long-term or short-term capital asset, the period of holding shall be calculated from the date when shares in the amalgamating company were acquired. [Sec. 2(42A)]
Indexation benefit	Indexation benefit shall be available from the year in which shares of amalgamated company were acquired by the assessee.

Amalgamation & amalgamating company

- As per sec. 47(vi), any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company is not treated as transfer (hence not liable to capital gain) provided the amalgamated company is an *Indian* company.

- If amalgamation does not satisfy condition of sec. 2(1B) **and** of sec. 47(vi), then exemption is not available.

- As per sec. 47(viab),any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company, (referred to in the Explanation 5 of sec.9(1)(i)), which derives, directly or indirectly, its value substantially from the share or shares of an Indian company, held by the amalgamating foreign company to the amalgamated foreign company, if:

  a. at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
  b. such transfer does not attract tax on capital gains in the country in which the amalgamating company is incorporated.

- As per sec. 47(via),any transfer, in a scheme of amalgamation, of a capital asset being a share or shares held in an Indian company, by the amalgamating foreign company to the amalgamated foreign company is not treated as transfer (hence not liable to capital gain) provided:

  a. at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
  b. such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated.

Taxpoint

- *Such transfer is in a scheme of amalgamation by the amalgamating foreign company to the amalgamated foreign company.*
- *Transferred asset must be a capital asset being a share or shares held in an Indian company.*
- *At least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company.*
- *Such transfer does not attract tax on capital gain in the country, in which the amalgamating company is incorporated.*

Amalgamation & amalgamated company

- **Value of non-depreciable capital assets for the purpose of capital gain**

  As per sec. 49(1), where a capital asset became the property of amalgamated (Indian) company in a scheme of amalgamation, the cost of acquisition of the asset to the amalgamated company shall be deemed to be the cost for which the previous owner (i.e., amalgamating company) of the property acquired it, as increased by the cost of any improvement of the assets incurred or borne by the previous owner or the assessee, as the case may be.
  It is to be noted that where non-depreciable asset was acquired before 1-4-2001, the cost of acquisition can be taken as cost of acquisition or fair market value of the asset as on 1-4-2001, at the option of the assessee.
  In determining the period of holding of such asset, period of holding of previous owner shall also be considered, however, indexation benefit is available from the year of amalgamation.

Value of depreciable asset for the purpose of business income

Where in any previous year, any block of assets is transferred by the amalgamating company to the amalgamated (Indian) company in a scheme of amalgamation, then, the actual cost of the block of assets in the case of the amalgamated company shall be the written down value of the block of assets as in the case of the amalgamating company for the immediately preceding previous year as reduced by the amount of depreciation actually allowed in relation to the said preceding previous year [Exp. 2 to sec. 43(6)]

Allocation of depreciation in the year of amalgamation: The aggregate deduction, in respect of depreciation allowable to the amalgamating company and the amalgamated company in the case of amalgamation shall not exceed in any previous year the deduction calculated at the prescribed rates as if the amalgamation had not taken place and such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

Value of asset transferred as stock in trade

Where an asset [not being an asset referred to in sec. 45(2)] which becomes the property of an amalgamated company under a scheme of amalgamation, is sold by the amalgamated company as stock-in-trade of the business carried on by it, the cost of acquisition of the said asset to the amalgamated company in computing the profits and gains from the sale of such asset shall be the cost of acquisition of the said asset to the amalgamating company, as increased by the cost, if any, of any improvement made thereto, and the expenditure, if any, incurred, wholly and exclusively in connection with such transfer by the amalgamating company [Sec. 43C(1)]

Taxpoint: The provision is applicable where following asset of the amalgamating company is taken over by the amalgamated company as stock-in-trade at revalued price:

a) Stock-in-trade
b) Capital asset converted to stock-in-trade
c) Capital asset

Sec. 43C is also applicable where an asset becomes the property of the assessee on the total or partial partition of HUF or under a gift or will or irrevocable trust.

Set-off and carry forward of business loss and unabsorbed depreciation [Sec. 72A]

Applicable

Where there has been an amalgamation of a company owning:
(a) an industrial undertaking; or
(b) a ship; or
(c) a hotel,
- with another company.

An amalgamation of a banking company with a specified bank.
One or more public sector company or companies engaged in the business of operation of aircraft with one or more public sector company or companies engaged in similar business,

Conditions to be satisfied

The accumulated loss shall not be set off or carried forward and the unabsorbed depreciation shall not be allowed in the assessment of the amalgamated company unless:

(a) The amalgamating company—
   (i) has been engaged in the business, in which the accumulated loss occurred or depreciation remains unabsorbed, for three or more years;
   (ii) has held continuously as on the date of the amalgamation at least ¾th of the book value of fixed assets held by it two years prior to the date of amalgamation.

(b) The amalgamated company—
   (i) holds continuously for a minimum period of 5 years from the date of amalgamation at least ¾th of the book value of fixed assets of the amalgamating company acquired in a scheme of amalgamation;

(ii) continues the business of the amalgamating company for a minimum period of 5 years from the date of amalgamation;
(iii) fulfils such other conditions* as may be prescribed to ensure the revival of the business of the amalgamating company or to ensure that the amalgamation is for genuine business purpose.

* Conditions for carrying forward or set-off of accumulated loss and unabsorbed depreciation allowance in case of amalgamation [Rule 9C]

(*a*) The amalgamated company, owning an *industrial undertaking* of the amalgamating company by way of amalgamation, shall achieve the level of production of at least 50% of the installed capacity (i.e., the capacity of production existing on the date of amalgamation) of the said undertaking before the end of 4 years from the date of amalgamation and continue to maintain the said minimum level of production till the end of 5 years from the date of amalgamation.
Provided that the Central Government, on an application made by the amalgamated company, may relax the condition of achieving the level of production or the period during which the same is to be achieved or both in suitable cases having regard to the genuine efforts made by the amalgamated company to attain the prescribed level of production and the circumstances preventing such efforts from achieving the same.

(*b*) The amalgamated company shall furnish to the Assessing Officer a certificate in Form No. 62, duly verified by an accountant, with reference to the books of accounts and other documents showing particulars of production, along with the return of income for the assessment year relevant to the previous year during which the prescribed level of production is achieved and for subsequent assessment years relevant to the previous years falling within five years from the date of amalgamation.

Treatment

The accumulated business (non-speculative) loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or, as the case may be, allowance for depreciation of the amalgamated company for the previous year in which the amalgamation was effected, and other provisions of this Act relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.

In a case where any of the conditions are not complied with, the set off of loss or allowance of depreciation made in any previous year in the hands of the amalgamated company shall be deemed to be the income of the amalgamated company chargeable to tax for the year in which such conditions are not complied with.

Deduction of expenses incurred in case of amalgamation or demerger [Sec. 35DD]

Applicable to: An Indian company

Conditions

a) Assessee has incurred certain expenditure wholly & exclusively for the purpose of amalgamation or demerger.
b) No deduction has been claimed for such expenses under any other section.

Quantum of deduction: 1/5th of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.

Other Provisions

Capital Expenditure on Scientific Research [Sec. 35(5)]: Provisions of sec. 35 shall apply to the amalgamated company, as it would have been applied to the amalgamating company, if the latter had not transferred such asset.

Telecom or spectrum licence: The amalgamated company or resulting company (being Indian company) as the case may be shall be entitled to claim deduction u/s 35ABB (or sec. 35ABA) for the residual period as if the amalgamating or demerged company had not transferred the licence.

Amortisation of Preliminary Expenses: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) shall be entitled to claim deduction u/s 35D for the residual period as if the amalgamation or demerger had not taken place.

Amortisation of expenditure incurred under VRS: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) as the case may be, shall be entitled to claim deduction u/s 35DDA for the residual period as if the amalgamation or demerger had not taken place.

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2018

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

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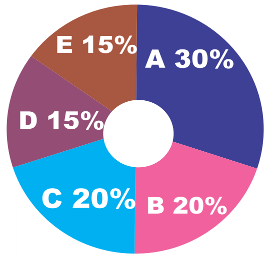
Your Preparation Quick Takes



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.

DISCLOSURES REQUIREMENT OF SHARE - BASED PAYMENT [IND AS 102]

OBJECTIVE

The objective of this Standard is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

SCOPE

An entity shall apply this Standard in accounting for all share-basedpayment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

a) equity-settled share-based payment transactions,

b) cash-settled share-based payment transactions, and

c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments,

RECOGNITION

- An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

- When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goodsor services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference tothe fair value of the equity instruments granted.

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall re-measure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

SHARE-BASED PAYMENT TRANSACTIONS WITH CASH ALTERNATIVES

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

DISCLOSURES

An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based paymentarrangements that existed during the period.

To give effect to the principle mentioned in the standard, the entity shall disclose at least the following:

a. a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information,unless separate disclosure of each arrangement is necessary for satisfying precondition.

b. the number and weighted average exercise prices of share options for each of the following groups of options:

- outstanding at the beginning of the period;
- granted during the period;
- forfeited during the period;
- exercised during the period;
- expired during the period;
- outstanding at the end of the period; and
- exercisable at the end of the period.

c. for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.

d. for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options. An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle laid down in the Standard, the entity shall disclose at least the following:

a. for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:

- the option pricingmodel used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;
- how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and
- whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.

b. for other equity instruments granted during the period (i.e. other than share options), the number and weighted average fair value of thoseequity instruments at the measurement date, and information on how that fair value was measured, including:

- if fair value was not measured on the basis of an observable market price, how it was determined;
- whether and how expected dividends were incorporated into the measurement of fair value; and
- whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

c. for share-based payment arrangements that were modified during the period:

- an explanation of those modifications;
- the incremental fair value granted (as a result of those modifications); and
- information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.

If the entity has measured directly the fair value of goods or services received during the period, the entity shall disclose how that fair value was determined, e.g. whether fair value was measured at a market price for those goods or services.

An entity shall disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

To give effect to the specific principle mentioned in the standard, the entity shall disclose at least the following:

a. the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions;

b. for liabilities arising from share-based payment transactions:
   - the total carrying amount at the end of the period; and
   - the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (e.g. vested share appreciation rights).

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Group - IV

Paper - 18

Indirect Tax Laws & Practice (ITP)

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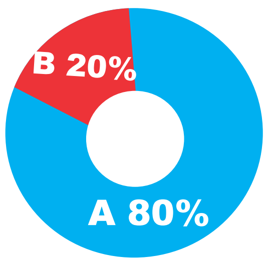
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section, you will having an understanding of:

- *Brief background of indirect taxes in India before the GST regime;*
- *Need for reform in Indian indirect taxes;*
- *The major events leading to introduction of Goods and Services Tax;*
- *The basic introduction to the concept of Goods & Services Tax.*

INTRODUCTION OF GOODS AND SERVICES TAX IN INDIA

Background of Indirect Taxes in India before GST Regime

India, the world's largest democracy, has a federal Constitution where the taxes can be levied both by the central government as well as by the state governments. This developing economy can be considered to be the home of taxes, especially indirect taxes. Different indirect taxes have been levied over the past few decades in this country putting all the activities across the 'value chain' under the tax net viz. manufacturing or production, sale or purchase, and the rendering of services. Before the introduction of the Goods and Services Tax (GST), the Central Government was empowered to levy excise duty on manufacture or production of goods in India and service tax on the provision of services, and the State Governments were empowered to levy the state-level sales tax on the intra-state sale of goods. Central sales tax (CST) was levied on inter-State purchase or sale of goods by the Central Government, but collected and retained by the originating state. Further, many States levied an entry tax on the entry of goods in local areas. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country.

Need for Reform in Indirect Taxes

Prior to the introduction of GST, in India, both Central Government and State Governments had been imposing indirect taxes on the transactions involving goods and services. This multiplicity of taxes at the State and Central levels resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry. In order to simplify and rationalize the complex indirect tax structures, Government of India attempted various tax policy reforms at different points of time. Moreover, a system of VAT on services at the Central Government level was introduced in 2002. The states started collecting taxes through state sales tax (named VAT), introduced in 2005, levied on intra-state trade and the CST on inter-state trade. Despite all these changes the overall taxation system continued to be complex and has various exemptions. In this background, it was felt necessary to ensure "One Nation, One Tax" in the Indian economy and introduce the concept of Goods and Services Tax (GST). Thus, India was about witness another major change in the Indian indirect tax scenario with the introduction of the GST.

Major Events leading to introduction of GST

GST had being introduced in the country after traversing a long path since it was first discussed in the report of the Kelkar Task Force on Indirect Taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is discussed hereunder:

- In 2003, the Kelkar Task Force on Indirect Taxes had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.

- A proposal to introduce a National-level Goods and Services Tax (by April 1, 2010) was first mooted in the Budget Speech for the financial year 2006-07.

- Since the proposal involved reform/restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of Goods and Services Tax was assigned to the Empowered Committee of State Finance Ministers (EC).

- Based on inputs from Government of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.

- In order to take the Goods and Services Tax related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.

- In order to amend the Constitution to enable introduction of Goods and Services Tax, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.

- Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on November 8, 2012, 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.

- This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the Empowered Committee recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.

- The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of Goods and Services Tax namely: (a) Committee on Place of Supply Rules and Revenue Neutral Rates; (b) Committee on dual control, threshold and exemptions; and (c) Committee on Integrated Goods and Services Tax (IGST) and GST on imports.

- The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined by the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.

- The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.

- The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.

- The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.

- In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.

- Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on December 17, 2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax in the country. The Bill was introduced in the Lok Sabha on December 19, 2014, and was passed by the Lok Sabha on May 6, 2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.

- Lok Sabha and Rajya Sabha has unanimously passed the 122nd Constitutional Amendment Bill in August, 2016 which later got the assent of the President.

- The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017.

The implementation of Goods and Services Tax (GST) after nearly one and a half decades since its initiation is believed to be a milestone in the indirect tax structure in the country.

Goods and Services Tax – A Brief Overview

Goods and Services Tax is a comprehensive value added tax on goods and services. It is, by nature, a destination-based levy on consumption of goods and services. GST will apply on "supply" of all goods or services for a consideration unlike the present concept of tax levied on the manufacture of goods or on sale of goods or on provision of services. Moreover, GST will be imposed at all stages right from manufacture to final consumption with availability of credit of taxes paid at previous stages, as setoff. In other words, under this GST framework, only value addition will be taxed and burden of tax is to be borne by the final consumer. Thus this would help in streamlining the multiple taxes as a result of which the final cost to the customer would get reduced. The consumption based concept would also be smoothening out economic distortions, thereby resulting in a single market for all goods and services. This new levy would replace and subsume almost all of the indirect taxes that are presently levied in India.

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2018

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

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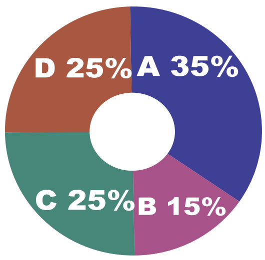
Your Preparation Quick Takes



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

Understanding Administrative Expenses (CAS – 11)

Introduction

As an organisation prepares for its cycle of production, it has to establish a budget upon which its entire plan of action is depended upon. The organisation has to determine the Cost of Production of its product / service. To determine such cost, one of a cost head namely 'Administrative Expenses' has to be considered. For proper budget based management, the determination of Administrative expenses has to be diligently calculated as any miscalculation has a possibility in adverse effect in the budget analysis.

Moreover, during the determination of Transfer Price for interdepartmental transfer of product / service, the recovery of proportionate administrative cost is important. Even though the overall profitability of an organisation is not affected by the transfer price, the performance of each department is consequential to the ascertainment of such costs. The Cost Accounting Standard 11 directs the transfer of products / service to have a portion of administrative cost related to the product (The determination of such costs have been discussed in following paragraphs.).

For charities and other non-profit organizations, administrative costs are often defined differently from the way for-profit making businesses define them. In many cases, any money that is brought into the charity organization and spent by the organization is counted as an administrative cost. Therefore, all of the costs of running the organization, such as for salaries, rent and utilities, or any expenses would be called administrative expenses.

As the administrative expenses may be eliminated without having to sacrifice any quantity of product being sold or produced, they are typically the first expenses looked into for budget cuts. There is strong motivation from management to maintain low administrative expenses relative to other expenses as an organization may utilize leverage more effectively with lower administrative costs. An entity may work out the sales-to-administrative ratio to gauge the portion of sales revenue attributable to covering administrative costs.

Determination of Administrative Cost.

With reference to Cost Accounting Standard (CAS) 11, Administrative expenses refer to the costs of operating a business that are not directly attributable to the production of goods or services. Administrative expenses are related to the organization as a whole as opposed to the individual departments.

Administrative expenses are necessary costs that are associated with the management, administrative, clerical, and general functions within an organization. These are the expenses which are incurred in controlling and directing an organization but cannot be directly identified with the marketing, financing or production operations. The salaries of executives cost of services (such as accounting, contracting, and industrial relations) are the examples of administrative expenses.Administrative expenses are non-technical charges necessary for the basic operation of an entity. These expenses are vital for a company's success as they occur to increase the efficiency of an organization

Some of the particular cases that are described in CAS 11 that helps recognising the Administrative Costs are:

- Remuneration paid to nonexecutive directors computed as per CAS 7 (Employee Cost) - should be treated as Administrative Expenses. The costs for internet landline and mobile telephone services are also included in these expenses.

Utilities consumed by administrative cost centres are to be collected and measured in accordance withprinciples laid down by CAS-8.

Repair and maintenance cost should be measured in accordance with principles laid down by CAS - 12.

Sometimes referred to as general expenses or operating expenses, administrative expenses involve any costs that offer a wide benefit to the organization. Their benefits cross departmental lines and make it possible for many functions to take place. Any expense that is limited to a particular division or department of the company and which offers little or no direct benefit to other areas of the organization, is not considered an administrative expense. ,For e.g. Accounting or legal, can be considered administrative because they benefit the entire organization.

The following are the points that are similar in both Cost Accounting Standards and CRA-1. The company under audit is bound to comply the CRA – 1 as per Companies Act2013, whereas the Cost Auditor is also bound to ensure compliance of Cost Accounting Standards.

1. In case of Assignment of administrative Expenses to the cost objects, the same shall be based on either of the following two principles;

   i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.
   ii) Benefits received – Expenses are to be apportioned to the various cost objects in proportion to the benefits received by them or any other equitable relationship.

2. For an asset used for administration expense (as defined under standard), in case of leased assets,
   if the lease is an operating lease, the entire rentals shall be included in the administrative overheads.
   if the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs and the balance cost related to the period shall be taken as Administrative Expense.

3. The cost of administrative services procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited.

4. Administrative expenses shall not include any abnormal administrative cost. For e.g. Administrative cost resulting from natural calamity (flood, earthquake, and the like), Sudden breakdown/ loss due to major fire accident

Statutory Requirements and Disclosures.

As per the Companies (Cost Records and Audit) Rules, 2014 – Part B/C 2- Abridged Cost Statements of the Annexure to the Cost Audit Report provides for the amount of expenditure for Administrative Expense. Those attributed costs are to be segregated and disclosed under those particular head. That disclosure is to satisfy the requirements of CAS 11.

The Company under audit is required to keep all the records as per CRA – 1 (8) that denotes the Administrative Expense. Following are some of the important rules.

a) Any change in the cost accounting principles applied for the measurement of the administrative Expenses shall be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
b) While assigning administrative Expenses, traceability to a cost object in an economically feasible manner shall be the guiding principle.

One of the major factor for classification of Administration Expenses is the identification of expenses in the Corporate Administration and Plant Administration. The both expenses are to be properly disclosed separately in the cost statement in Annexure to the Cost Audit Report. The classification is to be done by understanding the nature and purpose of the expenses.

The Plant Administration is dedicated to the operation of plant thus is a part of Production Cost. The expenses incurred in the Plant Administration is to be grouped under 'Other Production overheads' rather than 'Administrative Overheads'. Similarly the resources utilised for the Plant administration is to be taken under the 'Other Production Overheads which is a component of Cost of

Production/Service.

On the other hand, the Corporate Administration has the function of policy making and mainly carries out activities of fulfilment of the vision of the company. It serve the whole of the company rather than the production process. These type of expenditures are to be shown under 'Administrative Overheads' in cost statements and shall not form part of Cost of Production/Service.

It is to note that the placement of the departments is not consequential to the classification of costs as Administrative or otherwise. The importance is to be given as to the purpose/fuction of the department. Most of them incur similar costs are incurred in both the departments so, due care is to be given to the purpose rather than the name of the department or the expense.

Following are some examples of Corporate and Plant Administration for better understanding.

A. Plant Administration (Other Production Overheads) : Depreciation of assets used by the department, Utilities used by the department, Repairs and Maintenance incurred by the department, Stores and spares used by the department, Stationaries consumed by the department, General Manager of the Plant, Human Resource of the Plant, Finance Manager of Plant, Stock Audit Fees, Production certification fees.

B. Corporate Administration (Administrative Overheads) : Depreciation of assets used by the department, Utilities used by the department, Repairs and Maintenance incurred by the department, Stores and spares used by the department, Stationaries consumed by the department, Finance Management Company as a Whole, Managing Director, CEO, Company's Secretary, Non-executive directors, Financial and Cost Audit Fees.

!! Happy New Year !!

2018

STUDENTS' E-bulletin Final JANUARY 2018, ISSUE
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Group - IV
Paper - 20
Strategic Performance Management and Business Valuation (SPBV)

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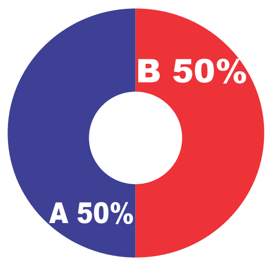
Your Preparation Quick Takes



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

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!

Merger & Acquisition and Shareholders Wealth

The logic behind mergers and acquisitions is that two or more companies jointly are more precious than two or more separate companies. The main principle behind acquiring a company is to make shareholder value over and above that of the sum total of the two or more companies. This justification is predominantly fascinating to companies while times are strong. Strong companies will proceed to acquire other companies to build a more competitive and cost- efficient company. The companies will come together hopeful to achieve a better market share or attain better efficiency. Owing to these possible advantages, target companies will habitually consent to be purchased when they identify they cannot survive alone.

The key motivation for merger and acquisitions is the explore for growth. Merger and acquisitions offer a way of obtaining knowledge, technology, inspiring incessant development, tumbling risk exposure, getting economies of scale and rising pioneering capacity. Merger and acquisitions have turn into the main way of industrial consolidation that is predominantly accurate for promising countries. Mergers and acquisitions usually take place in recurring patterns wherein periods of less and more definite incidence exchange and motivated lots of times by the need for financial and technological restructuring. The benefits stemming from mergers and acquisitions have been estimated in terms of the capability to use scale economies, expand market control, spend-less transaction costs, diversify risks and give entrée to accessible know-how.

Generally, the shareholders of the merged companies keep their ownership in the new company. The shareholders of the purchased companies are paid off in the case of an acquisition and the buyer becomes the owner of all, or a substantial part of, the assets of the acquired company. The most important dissimilarity between mergers and acquisitions is basically what the chance of shareholders becomes in the new company that comes out. Merger and acquisitions is a strategic decision in the course of which companies merge or obtain assets to generate value and maximize the existing shareholders wealth. Most of the researchers quarrel that merger and acquisition is one of the methods by which companies get entrée to new resources through redistribution of resources, augmented incomes and decreased cost.

The object of merger and acquisition is classified into financial and non-financial. The financial object is the company's need to attain risk reduction when upholding its rate of return; This is moreover a need to take the better financing position so as to a merger can generate because of development in size and the loss can be carry forwarded in the case of tax which may be offered in a merger. The non-financial objects for mergers consist of the need to develop management and marketing abilities and the acquisition of new products however rising descriptive powers of accounting parameter is fetching stronger with time.

Merger and acquisition is investment with belief of potential flow of revenues. It will be useful if the present value of the objective merger or acquired company over a period is superior than the cost of merger or acquisition and acquisition has influence on shareholder's wealth. Jenson (1988) detectd that mergers and acquisitions are accepted around the globe as systems for maximization of company's share of the market to finally augment the market value of company's share improve profitability and additionally, they give financial and fiscal gains, for instance, economies of scale, diversification of risk, development of equity base, augment in earnings per share, taxation, entrée to unusual management talent and employment opportunities.

Companies go for merger and acquisition for obtaining higher shareholder value than the sum total of the wealth of the companies concerned before the merger. The cost-effective advantages of a merger facilitate the acquiring company or the combined new company either to augment revenue or set aside costs. This synergy is there in any triumphant merger that is an evidence of its efficacy. On occasion, nevertheless, this synergy may not materialize because of negative components working at cross purposes.

The shareholders of the acquired company or the selling concern advantage considerably from merger and acquisition owing to considerable approval in the value of their holdings on the edge of such takeover. This augment in the value of the shares of the selling company obtains revealed in the price or exchange ratio of stock for the purpose of merger and acquisition. The acquirer does not complaint paying this additional amount towards control premium. No doubt the object company can increase shareholder value in the course of acquisition for its members.

On the contrary, the advantages of merger and acquisition to the shareholder of the purchasing company are generally not extremely tangible or obvious. But their gains are usually nominal. Go down in the value of stock in the post-merger period is a general fact.

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

!! Happy New Year !!

2018

Model Career Planer

CMA (Dr.) Sreehari Chava
Cost & Management Consultant,
Nagpur, Maharastra,
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(Here is a Model Career Planner that charts out the details of Mr. Anan, an illustrative character of Cost Manger. Adopt it for yourself and Plan ahead.)

A. The Person

1	Name	Anan
2	Gender	Male
3	Date of Birth	02.07.1990
4	Address	Cost Bhavan Apartments, Pandey Layout, Khamla, Nagpur – 440 025, India
5	Contact Number	+91 (712) xxxx736
6	Email	costman@xxxmail.com
7	Marital Status	
8	Domicile	India
9	Language Skills Can Speak Can Write Can Understand	 Marathi, Hindi, English, French, Tamil Marathi, Hindi, English, French Marathi, Hindi, English, French, Tamil, Telugu
10	Role Model	J R D Tata

J. R. D. Tata was born on 29 July 1904. As his mother was French, he spent much of his childhood in France and as a result French happened to be his first language.

He joined Tata Sons as an unpaid apprentice in 1925. In 1938, at the age of 34, JRD was elected Chairman of Tata Sons making him the head of the largest industrial group in India. He founded India's first commercial airline, Tata Airlines in 1932, which became Air India in 1946, now India's national airline. Under his chairmanship, the assets of the Tata Group grew from US$ 100 million to over US$ 5 billion. He started with 14 enterprises under his leadership and half a century later on 26 July 1988, when he left, Tata Sons was a conglomerate of 95 enterprises.

JRD Tata firmly believed in employee welfare and espoused the principles of an eight-hour working day, free medical aid, workers' provident scheme, and workmen's accident compensation schemes,which were later, adopted as statutory requirements in India.

JRD Tata received a number of awards. In 1992, because of his selfless humanitarian endeavours, JRD Tata was awarded India's highest civilian honour, the Bharat Ratna

B. The Family

1	Father Name Occupation	Nayan Farming
2	Mother Name Occupation	Mahima House Wife

C. Qualification

1	Graduation Year Stream Percentage	 June 2007 Science 72
2	Post Graduation Year Stream Percentage	 June 2009 Management 85
3	Professional Year Course Stream Percentage	 December 2009 ICMAI Cost Management 68

D. Experience

1	Employer Position Job Description Period Earnings p.m. in Rs.	MA & Co, Cost Accountants Trainee Verification of Cost Accounts Compilation of Cost Statements Appraisal of Enterprise Performance April 2010 to March 2012 (Two Years) Rs.6,000/-
2	Employer Position Job Description Period in Years Earnings p.m. in Rs.	MA Limited; Manufacturers of ABC Power Cables; Annual turn over: 750 crores Performance Analyst Compilation of Daily Performance Report Analysis of Monthly Performance & Financial Statements Fund flow Reports July 2012 onwards.... (Nearly 4 years) Rs. 43,000/

E. Perception

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

F. SWOT Matrix

	Strengths	Professional Knowledge Work acumen Positive thinking Local domicile Courage & Discipline • Proximity to the top management

2	Weaknesses	Goes too far for perfection Short Temperament Tends to conform to the wishes of seniors Overconfidence at times • Inadequate public speaking skills
3	Opportunities	Increasing demand for cost managers • Better Prospects within the organization
4	Threats	• Aging parents
5	Observations	To focus on improvement of soft skills and overcome the weaknesses during the next two years • To work out a solution for properrelocation of parents as per their convenience

G. Self Evaluation

Serial	Item		Max. Score	Assessed Score	Rating
1	**Looks**				
	a	Appearance	9	7	Fair
	b	Attire	8	6	Fair
	c	Confidence	8	6	Fair
	d	Sub Total	25	19	Fair
2	**Knowledge**				
	a	Subject	30	25	Good
	b	General	20	16	Good
	c	Sub Total	50	41	Good

3	**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
4	**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
5	**Team Play**				
	a	Leadership	13	9	Fair
	b	Adaptability	6	5	Good
	c	Team Spirit	6	5	Good
	d	Sub Total	25	19	Fair
6	**Skill Traits**				
	a	Language Proficiency	12	10	Good
	b	Special Skills	13	11	Good
	c	Sub Total	25	21	Good
7	**Total**		200	160	Good

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

Observation: Needs to improve the total score to 170 within two years by focusing on all the areas falling below 80% of the maximum mark allotted

H. Career Goals

1	Ten Years hence Position Financial Family Social	 General Manager (Cost Management) Rs.25 lakhs per annum in Nagpur One kid Office Bearer of XXX Club
2	Five Years hence Position Financial Family Social	 Manager (Cost Management) Rs.12 lakhs per annum in Nagpur Buying a four-wheeler Active Member of XXX Club
3	Two Years hence Position Financial Family Social	 Manager (Cost Management) Rs.8 lakhs per annum in Nagpur Buying three room apartment; Relocation of parents to Nagpur Member of XXX Club
4	One Year hence Position Financial Family Social	 Dy. Manager (Cost Management) Rs.6 lakhs per annum in Nagpur Marry a working girl from Nagpur Net working for more professional friends

I. PunchCaution

Needs adequate care and caution about cunning peers in the accounts and production departments

Date:xx / xx / 2018	**Signature:** - - - -

Practical ADVICE

ABOUT YOUR STUDIES - FINAL COURSE

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

1 Assess Yourself

2 Solve Excercises given in Study Note

3 Read The Tips

4 Read Study Notes & MTPs

5 Appear For Examination

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

Message from the Directorate of Studies

Dear Students,

We have stepped into 2018 and with new enthusiasm for the future to come, it is also a time to reflect on the year gone by and the beautiful moments shared with all. Express your gratitude and spare your thoughts for all who have supported you and remember to make a new year resolution to do much better in every sphere of your life.

'Learn from yesterday, Live for today, Hope for tomorrow'

For the smooth and flawless preparation. Directorate of Studies have provided meaningful tips which will help you to gain sufficient knowledge about each subject."Tips" are given in this E-bulletin by the knowledge experts for the smooth encouragement in you preparation. We are sure that all students will definitely be benefitted by those tips and that will help them to brush up their knowledge and also to swim across.

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

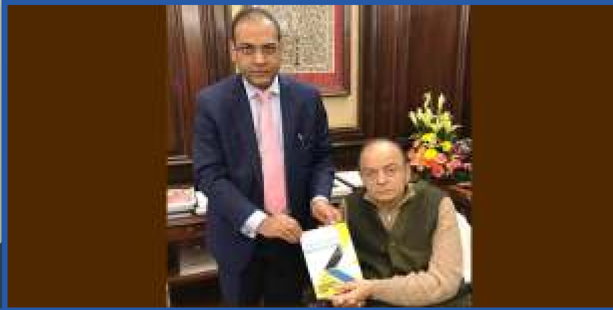
Essentials for Preparation:

- Conceptual understanding & Overall understanding of the subject both should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students Should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Be Prepared and Get Success;

Photo Gallery

CMA Sanjay Gupta, President of the Institute met Shri Piyush Goyal, Minister of Railways and Coal and discussed the Railways Project and Enhanced role of CMA's in Railways and Coal Sector.



CMA Sanjay Gupta, President, The Institute of Cost Accountants of India presenting Guidance Note by the Institute on Anti Profiteering to Shri Arun Jaitley, Hon'ble Minister of Finance and Corporate Affairs.

CMA Sanjay Gupta, President, The Institute of Cost Accountants of India extending New Year greetings with Shri Suresh Chandra, Secretary to the Government of India, Ministry of Law & Justice.

CMA Sanjay Gupta, President, The Institute of Cost Accountants of India extending New Year greetings with Shri Injeti Srinivas, Secretary to the Government of India, Ministry of Corporate Affairs.

Glimpse of the meeting held on 14.01.2018 at the HQ in connection with the preparation of work book for students' ,by the Directorate of Studies.

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Behind every successful business decision, there is always a CMA