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e Bulletin

VOL: 3, No.: 4, April, 2018 ISSUE

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

Message from The Chairman

CMA Manas Kumar Thakur

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

CMA MANAS KUMAR THAKUR
Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)

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MESSAGE FROM THE CHAIRMAN

Dear Students,

"Education is an ornament in prosperity and a refuge in adversity".

We are already stepped in the fourth month of the year,2018. We know that 'Time and tide wait for none', hence, it is our collective duty to utilise time in the most efficient and effective way. ***'Learning is a treasure that will follow its owner everywhere.'***

'***Teachers who love teaching teach children to love learning'***, towards this end the Directorate of Studies are providing reading materials to you in various forms and it is your duty to deliver by your performances. **PPT on 'Achieve your GOAL'** has been uploaded in our site I request you all to please go through the slides so that you may avoid to be panic stricken while appearing for the examination. '**Work Book'** for Intermediate students' has been uploaded by the Directorate of Studies which carries lots of examples in subjects and which I am sure will help you in your smooth flow of preparation. 'Work Book' for Final students' will be uploaded shortly.

'***Never stop learning; for when we stop learning, we stop growing.'*** Please try to optimise your preparation by availing the benefits given by the academicians. **E-bulletin**; if followed seriously will help you to prepare yourself in a systematic way. Mock Test Papers **(MTP)** and Revisionary Test Papers (RTP) are also help you in making your preparation flawless. Please keep on watching the students' site on a regular basis which will optimise your plan of preparation.
I hope you have enjoyed 53rd National Cost Convention held at Vigyan Bhawan New Delhi and have come to know the importance of your Institute as been referred by all the dignitaries. Those could not attend it personally may see the glimpses as displayed in our site. I am sure that it will give you immense pleasure.

'Education is the key to unlock the golden door of freedom'.
Wishing you all to lead a successful life,

CMA Manas Kumar Thakur

Be a CMA, be a Proud Indian

"Behind every successful business decision there is always a CMA"

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CONTENTS

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KNOWLEDGE
Update

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

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GROUP: 3, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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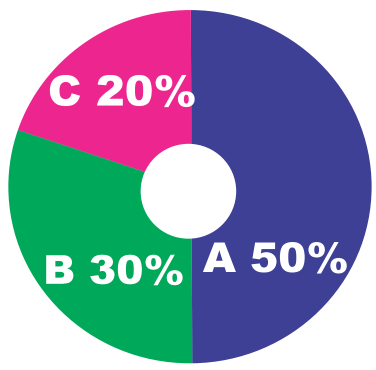
Your Preparation Quick Takes



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.

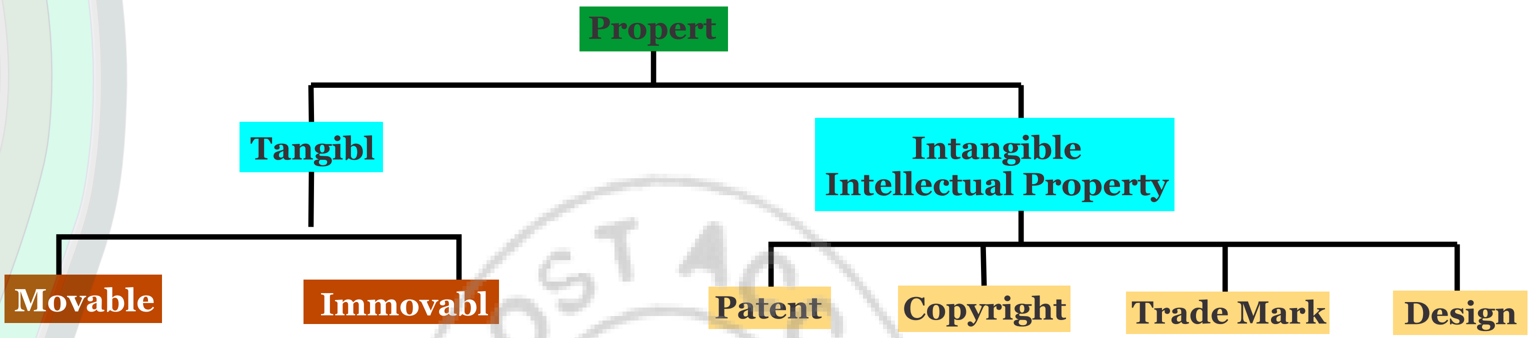
Don't write wrong English. It changes the meaning and therefore answer may be wrong even when the student's conception is clear. Also don't make spelling mistakes.

SALE OF GOODS ACT

Laws relating to Sale of Goods

1.0 Introduction

Sale means absolute transfer or non-revisionary transfer against a consideration, i.e. price. Non-revisionary means that it will never revert to the seller or transferor (or goods) may be classified as under:



Sale Goods Act deals only with movable goods. The Act does not define movable goods. However, it defines immovable goods such as "land and anything permanently attached to land". Any other property/goods will be considered as movable and shall come under the preview of Sale of Goods Act.

1.1 Scope and Applicability:

Sale of Goods Act was enacted in 1930 and came into force from 1.07.1930. This was originally in the Contract Act 1872. The Act extends to whole of India except Jammu & Kashmir. The law is like the Contract Law and the general provisions of the Contract Law will apply to Contract of Sale unless they are not inconsistent with the provision of Sale of Goods Act.

1.2 Certain assumptions are taken while making sales contract by the buyer and the seller.

(i) Assumptions in sale transactions by buyer:

Seller is the absolute owner with authority to sale.
Goods are free from any encumbrance.
Seller is clear about buyer's requirement.
Buyer shall pay immediately on delivery of goods at the agreed price.
Buyer shall enjoy free use of the goods purchased

(ii) Assumptions by the seller:

Buyer is genuinely interested to buy.
Buyer has the capacity to pay.
Buyer will pay on delivery of goods.
Buyer is ready for the goods to be transferred to him.

1.3 Formation Of Contract:

Sale and agreement to sale

Agreement to sale

A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price. The contract may be absolute or conditional.

1.3 Goods:

As said earlier Sales of Goods deals with all kind of movable goods which means every kind of movable property other than achievable claims and money but includes stocks and shares, growing crops and things attached to land which shall be separated before sale. However with Companies Act, the sales of securities are no longer dealt under this Act. Achievable claims are claims which are enforceable by legal order. Goods can also be classified as under:

(i) Existing goods and future goods: Existing goods are those goods which are existing at the time of making a contract. Goods which are existing with the seller at the time of contract are called future goods.

(ii) Ascertained goods and unascertained goods: Seller and buyer can make an agreement to sale with broad description of the goods and decide the actual description (more detailed) at a later date. ABC Ltd., a garment manufacturer makes an agreement to M/S Ideal Garments, a garments retailer. The kind of garments may be ascertained at a later date. However, the agreement is valid. It should be remembered that goods cannot pass on to the buyer unless ascertained.

(iii) Apportioned and unapportioned goods: The apportionment means identifying or earmarking the goods for a particular buyer. Seller can apportion with consent of the buyer or buyer can apportion with the consent of the seller.

2.0 Formalities of a Contract:

2.1 Agreement of sale:

In a contract of sale where the transfer of the property in the goods is to take place in a future date or subject to certain condition thereafter to be fulfilled, the contract is called an agreement to sell. An agreement to sell becomes a sale when the time elapses or the conditions are fulfilled.

(i) Executory and executed
(ii) Pure and simple contract but AOS is contract plus conveyance.

2.2 For a contract of sale an offer and acceptance of the offer is must. The offer must specify the goods offered for sale and the price to be paid by the buyer. The buyer may also give an offer to buy. The contract may be made in writing or by word of mouth, or partly in writing and partly in word of mouth or may be implied for the conduct of the parties.

2.3 Various types of good which can be sold/bought:

Goods here means every kind of moveable property other than actionable claims and money, and includes stock and shares, growing crops, grass, and things attached to or forming part of the land which are agreed to be severed before sale or under the contract for sale.

2.4 Contract for the future goods:

The sale or contract for sale may be either for the existing goods owned or possessed by the seller or for the future goods. Future goods mean goods which will be manufactured or produced or procured by the seller after the agreement is made.
Contingent goods mean goods whose acquisition/manufacture is subject to happening of an event.

2.5 Goods perishing before making the contract or before sale but after making the contract:

The contract is void if the goods without the knowledge of the seller and at the time of the contract was made, perished or become so damaged that the description made in the contract cannot be answerable.
Where there is an agreement to sell of specific goods and subsequently the goods without any fault of the seller or buyer perish or become so damaged as no longer to answer to their description in the agreement before the risk passes to the buyer, the agreement is thereby avoided.

3.0 Ascertainment of price:

3.1 Price ascertained in a contract:

The price in a contract of sale may be fixed by the contract or may be left to be fixed in manner thereby agreed or may be determined by the course of dealing between the parties. However, if the price was not fixed by the aforesaid manner the buyer shall pay a reasonable price to the seller. What is reasonable will vary from case to case. If the goods are subject to administered price, the price is fixed. If there is a manner of pricing agreed, but any of the parties not allowing the other to proceed on the particular manner shall be liable to compensate for loss to the other. If the seller has displayed the price in catalogue/Board, the same shall be considered, unless seller and buyer agree for some other price.

3.2 Where there is an agreement to sell on the terms that the price is to be fixed by the valuation of a third party and the third party did not make the valuation the agreement may be avoided. If the third party is prevented from making the valuation by one of the parties the other party may make a suit for damages.

3.3 Conditions and Warranties:

A stipulation in a contract of sale with reference to goods which are subject thereof may be a condition or a warranty. The condition is an essential stipulation of the contract, non-performance of which may give right to the parties to repudiate the contract. A warranty is a stipulation collateral to the main purpose of the contract, the breach of which gives right to claim for damages but not a right to reject the goods.

3.4 The condition in a contract for sale to be treated as warranty:

a. Where a contract of sale is subject to any condition to be fulfilled by the seller, the buyer may waive the condition or elect to treat the breach of the condition as a breach of warranty and not as a ground for treating the contract as repudiated.

b. Where a contract of sale is not severable and the buyer has accepted the goods or part thereof, the breach of any condition to be fulfilled by the seller can only be treated as a breach of warranty and not as a ground for rejecting the goods and treating the contract as repudiated.

c. The aforesaid a & b is not applicable when the fulfillment of any condition or the warranty is excused by law.

3.5 Implied conditions of sale:

A. Owner of goods and has right to sell
B. Buyer will have quiet possession of the goods
C. No encumbrance or charge on third party
D. Where buyer explains his requirement, the seller has to

ensure that goods should reasonably fit for the purpose.(other than branded/patented goods)

E. Goods should have merchantable quality(unless examined by the buyer)

3.6 Sale by description:

Where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description and if the sale is by sample as well as by description it is not sufficient that the bulk of the goods corresponds with the sample if the goods do not also corresponds with the description.

3.7 Sale by sample:

A contract for sale is a contract for sale by sample where the contract satisfies the following conditions:

1) The bulk shall correspond with the sample in quality.
2) The buyer shall have a reasonable opportunity of comparing the bulk with the sample.
3) The goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

Buyer can avoid the contract if it does not match either with the sample or description.

4.0 Effects of Contract:

4.1 Property passed to the buyer:

1) Where there is a contract for the sale of specific or ascertained goods the property in them is transferred to the buyer at such time as the parties to the contract are agreed upon.

2) Where there is an unconditional contract for the sale of specific goods in a deliverable state, the property in the goods passes to the buyer when the contract is made, and it is immaterial whether the time of payment of price or the time of delivery of the goods is postponed.

3) Where there is a contract for the sale of specific goods but those are not in transferable state then the property in the goods cannot be transferred until the goods are put into deliverable state.
4) Where there is a contract for sale of specific goods in a deliverable state, but the seller is bound to weigh, measure, test or do some other acts for the purpose of ascertaining the price of the goods in the contract the property does not pass till such act is done.

Doctrine of caveat emptor: *Let the buyer beware*

4.2 Sale of unascertained goods and appropriation:

a) Where there is a contract for the sale of unascertained or future goods by description and goods of that description and in deliverable state are unconditionally appropriated to the contract, either by the seller with the assent of the buyer or by the buyer with the assent of the seller, the property in the goods thereupon passes to the buyer. Such assent may be expressed or implied, and may be given either before or after the appropriation is made.

b) Where, in pursuance of the contract, the seller delivers the goods to the buyer or to a carrier or other bailee for the purpose of transmission to the buyer, and does not reserve the right of disposal, he is deemed to have unconditionally appropriated the goods to the contract.

4.3 Goods sent on approval or "on sale or return":

When the goods are delivered to the buyer on approval or "on sale or return" or other similar terms, the property therein passes to the buyer-

a) When he signifies his approval or acceptance to the seller or does any other act adopting the transaction.

b) If he does not signify his approval or acceptance to the seller but retains the goods without giving notice for the rejection, then if a time is fixed for the return of the goods, on the expiration of such time, and, if no time has been fixed, on the expiration of a reasonable time.

4.4 Reservation of right of disposal:

Where there is a contract for sale of specific goods or where goods are subsequently appropriated to the contract, the seller may, by the terms of the contract or appropriation reserve the right to disposal of the goods until certain conditions are fulfilled. The right of disposal can be exercised by the seller even if the goods are delivered to the buyer, because in this case the property in the goods does not pass to the buyer until the conditions imposed are fulfilled.

Where the goods are shipped or delivered to a railway administration for carriage by the railway and the goods are deliverable according to the order of the seller or his agent, the seller is prima facie deemed to reserve the right of disposal.

Where the seller of goods draws on the buyer for the price and transmits to the buyer the bill of exchange together with the bill of lading, the railway receipt as the case may be, to secure the acceptance or payment of the bill of exchange, the buyer is bound to return the bill of lading or the railway receipt, if he does not honor the aforesaid documents the property in the goods does not pass to him.

5.1 Seller of goods

The following persons can be seller of goods, subject to conditions.

(i) The owner himself.
(ii) The representative/agent of the seller.
(iii) If there is no authority, the buyer shall not have a better title than the person selling, subject to waiver by the owner.
(iv) In case of joint owners by consent of all of them. The buyer not responsible if not aware of the joint ownership.

PERFORMANCE OF CONTRACT

A- The following rules apply in case of performance of contract.(subject to usage and customs in the particular trade)

(i) Unless otherwise specified, payment and delivery shall be concurrent. Parties may decide as what would constitute performance.
(ii) The seller is not bound to deliver unless applied for by the buyer.
(iii) Place of delivery shall be the place where the goods are lying at the time of agreement and place

of manufacture in case of future goods.

(iv) If no time is stipulated, reasonable time.

(v) If to be taken from third party, he should agree that he is holding the goods for the buyer.

(vi) Buyer may reject lesser quantity than asked fore but if he accepts, he has to pay for it. For excess, he can accept the agreed quantity and return the excess but if he accepts, he has to pay for them.

(vii) Unless otherwise agreed, goods are not to be delivered in installments.

(viii) If seller takes the responsibility of delivering at a place where delivery is not normally made, the loss/deterioration shall be on account of the seller.

(ix) Delivery to carrier shall be discharge of contract.

(x) Buyer has right to inspect the goods before acceptance. Acceptance can be express or implied or no intimation of rejection within reasonable time.

(xi) Buyer is not bound to return the rejected goods.

(xii) Buyer is responsible if he refuses or neglects to take delivery of the goods without sufficient reasons.

RIGHTS OF UNPAID SELLER

A. A seller shall be deemed to be unpaid, when:-

(i) The whole of the price is not paid / tendered

(ii) Conditional payment was made by bill of exchange/ negotiable instrument and such instrument has been dishonored.

Rights of unpaid seller

A. - on the goods-

(i) *possessory lien* : refuse to deliver unless full price is received, when-(a) sold without any credit terms (b) term of credit has expired (c) buyers become insolvent

Lien is lost when

(a) the seller delivers the goods to the carrier or to the bailee for transmission of the goods to the buyer without reserving the right of disposal.

(b) Buyer or his agent lawfully obtains the possession of goods.

(c) It is waived by the seller.

ii) *Stoppage in transit* i.e. The right to stoppage the goods when in transit and is available when (a) the buyer becomes insolvent and (b) the goods are in transit.

iii) *Right of re-sale*. When (a) the goods are perishable (b) such right is expressly reserved (c) seller gives the notice to do so when the buyer does not tender the amount within reasonable time.

iv) *Right to withhold* delivery when the property in the goods has not passed.

Suits for breach of contract.

1. *Suit for the price*

Seller may sue for the price of the goods when the property in the goods passed to the buyer and when the price is payable in a certain date even if the possession in the property has not been passed.

2. *Damages for non-acceptance by the buyer.*

3. *Damages for non-delivery by the seller.*

4. *Specific performance*: In this case the Court may direct to perform the contract without giving the defendant the option of retaining the goods on payment of damages.

5. *Remedy for breach of warranty*: buyer cannot reject the goods but can (a) set up against the seller in diminution or extinction of price (b) sue the seller for damages.

6. *Remedy repudiation of contract before due date of delivery* : when one party repudiate the contract the other party may wait till the date of delivery as the contract is subsisting and may sue the other party for damages.

7. *Interest by way of damages and special damages*: In the absence of contrary provision in the contract the buyer or seller may sue for interest or any special damages. On application to the Court it may also award interest from the following dates and in such rate as it think fit

(a) To the seller from the date of the tender of the goods or from the date of the price was payable.

To the buyer from the date on which the payment was made when he sue for refund

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GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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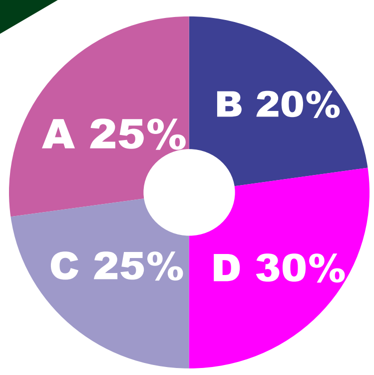
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

After studying this section on Strategic Financial Management, you will be able to:
- *understand the options terminology*
- *cognize the examples of call option and put option*

Strategic Financial Management

Meaning of Options

An option is a contract which gives the holder/ buyer of the contract the right but not the obligation to buy or sell the underlying asset at a predetermined price within or at end of a specified time period.

Terminology

- Call Option: A call option gives its holder the right to buy the specified asset at the price specified in the contract.
- Put option: A put option gives its holder the right to sell the specified asset at the specified price.
- Specified price refers to strike price or exercise price
- Expiration date refers to the date on which the option expires
- Exercise date refers to the date on which the option actually exercised
- Option premium is the price paid by the buyer to the seller to acquire the right to buy or sell
- American Option: If the option can be exercised at any time on and before its maturity date, it is known as American option.
- European Option: European option (put or call) can be exercised only on the expiry or maturity date (not before that date).
- Holder: Holder is simply the purchaser of call or put option. A holder gets the right of purchasing or selling the underlying asset accordingly as he holds call or put option. For enjoying this right the holder has to pay option premium to the writer. A holder holds only long position (either in call or put option).
- Writer: Writer actually writes or sells the option contract (put as well as call) to the holder in exchange of option premium. So a writer always holds the short position in an option (put or call) contract and he is bound to sell or purchase the underlying asset if respectively call or put option is exercised.

Example of calls without premium

- Suppose an investor is planning to buy stock of ACC in a month's time. The investor faces the risk that ACC's stock price could rise over this month. If the investor buys a call option on ACC with a strike of 95, he is protected from this risk:
- If ACC's price rises above 95, he can exercise the call and buy the stock for 95
- If ACC's price falls below95, he can let the call lapse and buy the stock at the cheaper price
- Thus, a call option offers a buyer one-sided protection against a price increase; i.e., it insures the buyer against a price increase while allowing the buyer to take advantage of a price decrease.

Example of puts without premium

- Suppose an investor is planning to sell stock of ACC in a month's time. The investor faces the risk that ACC's stock price could fall over this month. If the investor buys a put option on ACC with a strike of 95, he is protected from this exposure:
- If ACC's price falls below 95, she can exercise the put and sell the stock for 95
- If ACC's price rises above 95, she can let the put lapse and sell the stock at the higher price
- Thus, a put option offers a seller one-sided protection against a price decrease; i.e., it insures the seller against a price decrease while allowing the seller to take full advantage of a price increase.

Example of calls with premium

- An investor buys One European call option on Infosys at the strike price of Rs. 3500 at a premium of Rs. 100.
- If the market price of Infosys on the day of expiry is more than Rs. 3500, the option will be exercised.
- The investor will earn profits once the share price crosses Rs. 3600 (Strike Price + Premium i.e. 3500+100).
- Suppose stock price is Rs. 3800, the option will be exercised and the investor will buy 1 share of Infosys from the seller of the option at Rs 3500 and sell it in the market at Rs 3800 making a profit of Rs. 200 {(Spot price - Strike price) - Premium}.
- In another scenario, if at the time of expiry stock price falls below Rs. 3500 say suppose it touches Rs. 3000, the buyer of the call option will choose not to exercise his option. In this case the investor loses the premium (Rs 100), paid which shall be the profit earned by the seller of the call option.

Example of puts with premium

- An investor buys one European Put option on Reliance at the strike price of Rs. 300/-, at a premium of Rs. 25/-.
- If the market price of Reliance, on the day of expiry is less than Rs. 300, the option can be exercised as it is 'in the money'.
- The investor's Breakeven point is Rs. 275 (Strike Price - premium paid) i.e., investor will earn profits if the market falls below 275.
- Suppose stock price is Rs. 260, the buyer of the Put option immediately buys Reliance share in the market @ Rs. 260/-& exercises his option selling the Reliance share at Rs 300 to the option writer thus making a net profit of Rs. 15 {(Strike price - Spot Price) - Premium paid}.
- In another scenario, if at the time of expiry, market price of Reliance is Rs 320, the buyer of the Put option will choose not to exercise his option to sell as he can sell in the market at a higher rate. In this case the investor loses the premium paid (i.e Rs 25), which shall be the profit earned by the seller of the Put option.

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GROUP: 3, PAPER: 15

STRATEGIC COST MANAGEMENT- DECISION MAKING (SCMD)

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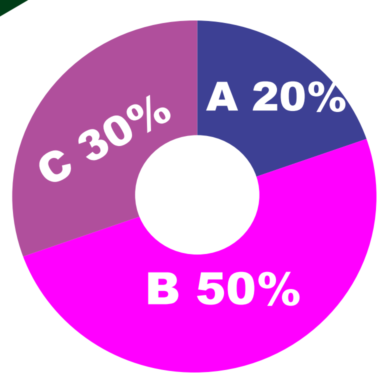
Your Preparation Quick Takes



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

Learning Objectives:

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

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

CIMA Terminology

Chartered Institute of Management Accountants (CIMA), United Kingdom, has developed the terminology and standardized the terms being used in relation to cost and management terms. In order to facilitate ready reference by the students, some of the key terms are reproduced here.

Activity-Based Budgeting: Method of budgeting based on an activity framework and utilising cost driver data in the budget setting and variance feedback processes.

Bottom-UpBudgeting: Budgeting process where all budget holders have the opportunity to participate in setting their own budgets.

Breakeven Point: Level of activity at which there is neither profit nor loss. It can be ascertained by using a breakeven chart or by calculation.

Budget: Quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues; resource quantities, costs and expenses; assets, liabilities and cash flows.

Budget Centre: Section of an entity for which control may be exercised through prepared budgets. It is often a responsibility centre where the manager has authority over, and responsibility for, defined costs and (possibly) revenues.

Budgetary Control: Master budget, devolved to responsibility centres, allows continuous monitoring of actual results versus budget, either to secure by individual action the budget objectives or to provide a basis for budget revision.

Budget Manual: Detailed set of guidelines and information about the budget process typically including a calendar of budgetary events, specimen budget forms, a statement of budgetary objectives and desired results, listing of budgetary activities and budget assumptions regarding, for example, inflation and interest rates.

Budget Period: Period for which a budget is prepared and used, which may then be subdivided into control periods.

Cash Budget: Detailed budget of estimated cash inflows and outflows incorporating both revenue and capital items.

Conversion Cost: Cost of converting material into finished product, typically including direct labour, direct expense and production overhead.

Committed Cost: Cost arising from prior decisions, which cannot, in the short run, be changed. Committed cost incurrence often stems from strategic decisions concerning capacity with resulting expenditure on plant and facilities. Initial control of committed costs at the decision point is through investment appraisal techniques.

Contribution: (sales value - variable cost of sales) Contribution may be expressed as total contribution, contribution per unit or as a percentage of sales.

Control: In management accounting, control usually means ensuring that activities planned and undertaken lead to desired outcomes.

Controllable Cost: Cost that can be controlled, typically by a cost, profit or investment centre manager.

Cost Behaviour: Variability of input costs with activity undertaken. Cost may increase proportionately with increasing activity (the usual assumption for a variable cost), or it may not change with increased activity (a fixed cost). Some costs (semi-variable) may have both variable and fixed elements. Other behaviour is possible, costs may increase more or less than in direct proportion, and there may be step changes in cost, for example. To a large extent cost behaviour will be dependent on the timescale assumed.

Cost Classification: Arrangement of elements of cost into logical groups with respect to their nature (fixed, variable, value adding), function (production, selling) or use in the business of the entity.

Cost Control: Process that ensures action is taken if costs exceed a pre-set allowance or that action is taken if costs are forecast to exceed expected levels.

Cost Management: Application of management accounting concepts, methods of data collection, analysisand presentation in order to provide the information needed to plan, monitor and control costs.

Departmental/Functional Budget: Budget of income and/or expenditure applicable to a particular function frequently including sales budget, production cost budget (based on budget production, efficiency and utilisation), purchasing budget, human resources budget, marketing budget, and research and development budget.

Direct Cost: Expenditure that can beattributed to a specific cost unit, forexample material that forms part of theproduct.

Discretionary cost: Cost whose amount within a time period is determined by adecision taken by the appropriate budget holder. Marketing, research and trainingare generally regarded as discretionary costs. Also known as *managed* or *policy* costs.

Fixed Budget: Budget set prior to the control period and not subsequently changed in response to changes in activity, costs or revenues. It may serve as a benchmark in performance evaluation.

Flexible Budget: Flexing variable costs from original budgeted levels to the *allowances* permitted for actual volume achieved while maintaining fixed costs at original budget levels.
(Variable cost allowance = Ratio of actual volume achieved to budget volume x original budget variable cost)

Fixed Cost: Cost incurred for an accounting period, that, within certain output or turnover limits, tends to be unaffected by fluctuations in the levels of activity (output or turnover).

Indirect Cost / Overhead: Expenditureon labour, materials or services thatcannot be economically identified witha specific saleable cost unit.The synonymous term *burden* isin common use in the US and insubsidiaries of American companies.

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

Long-term Variable Cost: All costs are variable in the long run. Full unit costs may be surrogates for long-term variable costs if calculated in a manner which utilises long-term cost drivers, for example activity-based costing.

Marginal Cost: Part of the cost of one unit of product or service that would be avoided if the unit were not produced, or that would increase if one extra unit were produced.

Master Budget: Consolidates all subsidiary budgets and is normally comprised of the budgeted profit and loss account, balance sheet and cash flow statement.

Operating Budget: Budget of the revenues and expenses expected in a forthcoming accounting period.

Period Cost: Cost relating to a time period rather than to the output of products or services.

Principal Budget Factor: Principal budget factor limits the activities of an undertaking. Identification of the principal budget factor is often the starting point in the budget setting process. Often the principal budget factor will be sales demand but it could be production capacity or material supply.

Relevant Range: Activity levels within which assumptions about cost behaviour in breakeven analysis remain valid.

Rolling/Continuous Budget: Budget continuously updated by adding a further accounting period (month or quarter) when the earliest accounting period has expired. Its use is particularly beneficial where future costs and/or activities cannot be forecast accurately.

Semi-Variable Cost: Cost containing both fixed and variable components and thus partly affected by a change in the level of activity.

Standard Costing: Control technique that reports *variances* by comparingactual costs to pre-set standards sofacilitating action through *management by exception*.

Value Chain: Sequence of business activities by which, in the perspective of the end user, value is added to the products or services produced by an entity.

Variable Cost: Cost that varies with a measure of activity.

Target Setting:"Tight but achievable" levels are recommended to motivate optimum performance. Too loose a budget can lead to under-achievement as can too tight a budget – and this can also be de-motivating.

Top-Down Budgeting: Budgeting process where budget allowances are set without permitting ultimate budget holders the opportunity to participate in the process.

Zero-Based Budgeting: Method of budgeting that requires all costs to be specifically justified by the benefits expected.

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DIRECT TAX
LAWS AND INTERNATIONAL TAXATION (DTI)

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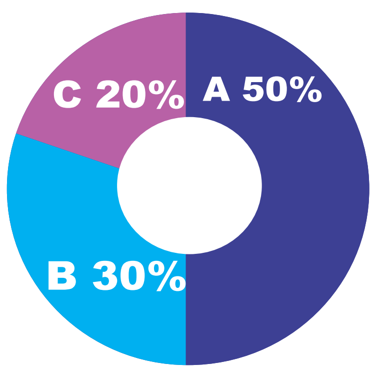
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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.

Tax on income of unit holder and business trust [Sec. 115UA]

Meaning [Sec. 2(13A)]

Business Trust means a trust registered as:

i. an Infrastructure Investment Trust under the SEBI (Infrastructure Investment Trusts) Regulations, 2014; or

ii. a Real Estate Investment Trust under the SEBI (Real Estate Investment Trusts) Regulations, 2014, and

the units of which are required to be listed on recognised stock exchange in accordance with the aforesaid regulations.

Tax treatment in hands of Business Trust

1. Following income are exempt:

A. Income of Business Trust [Sec 10(23FC)]

Any income of a business trust by way of

a) interest received or receivable from a special purpose vehicle; or

b) dividend referred to in sec. 115-O(7)

➢ "Special purpose vehicle" means an Indian company in which the business trust holds controlling interest and any specific percentage of shareholding or interest, as may be required by the regulations under which such trust is granted registration.

➢ Special purpose vehicle is not required to deduct tax at source on interest paid to the business trust [Sec. 194A(3)(xi)]. However, business trust is required to deduct tax at source @ 10% (5% in case of non-corporate non-resident or foreign company) on interest component of income distributed to the unitholders [Sec. 194LBA]

B. Income of Real Estate Investment Trust [Sec. 10(23FCA)]

Any income of a business trust, being a real estate investment trust, by way of renting or leasing or letting out any real estate asset owned directly by such business trust.

***Taxpoint*: Where rent is credited or paid to a business trust, being a real estate investment trust, in respect of any real estate asset, referred to in sec. 10(23FCA), owned directly by such business trust, TDS u/s 194-I is not required to be deducted. Business trust is required to deduct tax at source @ 10% (30% in case of non-corporate non-resident and 40% in case of foreign company) on distribution of such rental income to the unit holders [Sec. 194LBA]

2. ***Other Income of Business Trust***

Subject to the provisions of sec. 111A and sec. 112, the total income of a business trust shall be charged to tax at the maximum marginal rate.

Tax treatment in hands of unit holders

A. Distributed Income to unit holder of a Business Trust [Sec 10(23FD)]

Any distributed income, referred to in section 115UA, received by a unit holder from the business trust excluding proportion of the income which is of the nature referred to in 10(23FC)(a) or 10(23FCA) is exempt

B. Any income distributed by a business trust to its unit holders shall be deemed to be of the same nature and in the same proportion in the hands of the unit holder as it had been received by, or accrued to, the business trust.

If in any previous year, the distributed income, received by a unit holder from the business trust is of the nature as referred to in sec. 10(*23FC*)(a) or 10(*23FCA*)], then, such distributed income shall be deemed to be income of such unit holder and shall be charged to tax as income of the previous year.

Taxpoint: Unitholder, being non-corporate non-resident or foreign company, is liable to tax @ 5% on such interest income u/s 115A.

Other Provisions

❆ Any person responsible for making payment of the income distributed on behalf of a business trust to a unit holder shall furnish a statement to the unit holder (within 30th June of the financial year following the previous year during which the income is distributed) and the prescribed authority (within 30th November of the financial year following the previous year during which the income is distributed), in such form and manner as may be prescribed, giving the details of the nature of the income paid during the previous year and such other details as may be prescribed.

❆ Any transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust to the transferor is not regarded as transfer for the purpose of computation of capital gain.

❆ Income referred to in sec. 10(23FC)(a) or 10(23FCA) is not taxable in hands of business trust but taxation of such income is passed to the unit holder. On the other hand, all other income of the business trust is taxable in hands of the business trust and distribution thereof to the unit holders is not taxable again in hands of the unitholders.

Illustration

DEF is a real estate investment trust (REIT). It owns house properties in different parts of Maharashtra. Besides, it holds controlling interest in A Ltd. (A Ltd., an Indian company, is SPV created by DEF for the purpose of owning commercial properties). Annual income of DEF for the previous year 2017-18 are calculated as under:

Particulars	₹ in crore
Rental income from properties directly owned by DEF (computed)	7
Long-term capital gain on sale of land and buildings directly owned by DEF (computed)	20
Short term capital gain on sale of listed shares of A Ltd.	2
Short term capital gain on sale of land and buildings directly owned by DEF (computed)	8
Interest from A Ltd.	13
Dividend from A Ltd.	10
Total	60

DEF distributes ₹ 50 crore to its unitholders. X is one of the unitholders. He holds 10% units in DEF. Compute income in hands of DEF and X

Solution

Computation of total income and tax liability of DEF for the A.Y. 2018-19

Particulars	₹ in crore
Rental income from properties directly owned by DEF [Exempt u/s 10(23FCA)]	Nil
Long-term capital gain on sale of land and buildings directly owned by DEF	20
Short term capital gain on sale of listed shares of A Ltd.	2
Short term capital gain on sale of land and buildings directly owned by DEF	8
Interest from A Ltd. [Exempt u/s 10(23FC)]	Nil
Dividend from A Ltd. [Exempt u/s 10(23FC)]	Nil
Total Income	**30**
Tax on above	
Long term capital gain [(₹ 20 crore x 20%) x 115% x 103%]	**4.738**
Short term capital gain covered u/s 111A [(₹ 2 crore x 15%) x 115% x 103%]	**0.35535**
Short term capital gain on sale of land and buildings (₹ 8 crore x 35.535% being MMR)	**2.8428**
Total	**7.93615**

Computation of total income of X for the A.Y. 2018-19

Particulars	₹ in crore
Rental income from properties [₹ 5 crore x 7 / 60]	0.58
Long-term capital gain on sale of land and buildings [Exempt u/s 10(23FD)]	Exempt
Short term capital gain on sale of listed shares of A Ltd. [Exempt u/s 10(23FD)]	Exempt
Short term capital gain on sale of land and buildings [Exempt u/s 10(23FD)]	Exempt
Interest from A Ltd. [₹ 5 crore x 13 / 60]	1.08
Dividend from A Ltd.	Exempt
Total Income	**1.66**

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CORPORATE FINANCIAL REPORTING (CFR)

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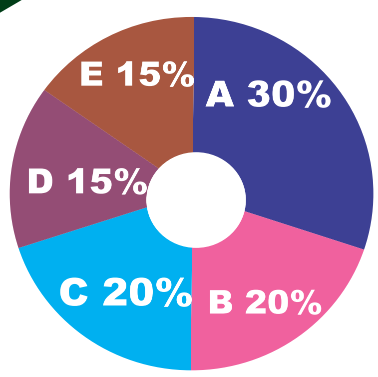
Your Preparation Quick Takes



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:

After studying the present section of Corporate Financial Reporting you will be able to:

- *Understand the concept of impairment loss.*
- *Learn the recognition principle for impairment loss.*

Calculation of Goodwill under Super Profit Method

Valuation of goodwill can be done in many ways. Two prominent methods are Super Profit Method and Capitalization Method. Often the numerical problems on this aspect are found in different examinations.

Super Profit Method

The basic ideology of this method is that whether an enterprise can earn extra or super profit over and above the normal profit and how long such super profit can be earned by the enterprise. If an enterprise can earn super profit then it has goodwill. The value will depend on the period for which such super profit can be generated in future.

The method of calculation of goodwill under Super Profit method can be done by using the following simple steps:

Step I: *Compute Future Maintainable Profit i.e. the amount of profit after tax that can be maintained in future.*
Step II: *Compute Normal Rate of Return i.e. the return which can be earned in the normal course of action.*
Step III: *Compute Average Capital Employed [(opening capital employed + closing capital employed)/2]*
Step IV: *Compute Normal Profit where Normal Profit = (Average Capital Employed * Normal Rate of Return)*
Step V: *Compute Super Profit where Super Profit = (Future Maintainable Profit – Normal Profit)*
Step VI: *Determine Goodwill where Goodwill = Super Profit * Number of years purchase[years purchase represents the period for which the super profit can continued to be earned]*

Capitalization Method

The basic intuition of this method is that, for earning the normal profit how much investment is required to be made by the enterprises in the normal course of action. If an enterprise can earn the same normal profit with a lower level of investment then such enterprise is said to have goodwill.

The method of calculation of goodwill under Capitalization method can be done by using the following easy steps:

Step I: *Compute Future Maintainable Profit*
Step II: *Compute Normal Rate of Return*
Step III: *Compute Actual Capital Employed*
Step IV: *Compute Capitalised Value of Future Maintainable Profit by dividing the Future Maintainable Profit by Normal Rate of Return [Capitalised Value of Future Maintainable Profit actually represents the amount of investment to be made to generate the normal profit in the ordinary course of activity]*
Step V: *Compute Goodwill = (Capitalised Value of Future Maintainable Profit- Actual Capital Employed)*

Let us consider the following illustration for better understanding the methods:

Illustration1. Considering the following information of X Ltd. you are required to compute annuity value of goodwill at 6 years purchase using super profit method for the year ended 31/12/2017.Given appropriate rate of discount is 10%.

i. The liabilities of the company consists of Share Capital (Rs. 100 each) of Rs. 500000; Profit & Loss Account of Rs. 187000; Creditors of Rs. 224000; Provision for Taxation of Rs. 39000.
ii. The assets are Goodwill of Rs. 50000; Plant Property and Equipment of Rs. 420000 and Debtors of Rs. 80000 and Other Current Asset of Rs. 400000.
iii. PAT for last 5 years were as follows:

Year ended	Profit/Loss	Economic Situation
2013	Rs. 90000 (Loss)	Abnormal
2014	Rs. 88000	Normal
2015	Rs. 103000	Normal
2016	Rs. 116000	Normal
2017	Rs. 130000	Normal

iv. Income Tax rate @ 40% which is expected to augment by 10% from next fiscal onwards.

v. Rate of Dividend:

Year ended	%
2014	10
2015	10
2016	15
2017	15

vi. The market value of shares of the company as on 31/12/2017 is Rs. 125
vii. It is expected that the Wages and Salary bill will increase by Rs. 20000 from next fiscal year onwards and the company is going to save cost of Rs. 40000 per annum due to the installation of a new kind of production system next year onwards.

Solution:
Since a number of years profit data is provided in the problem first the weighted average profit is to be first calculated before computing Future Maintainable Profit.

Calculation of Weighted Average Profit after Tax:

Year ended	Profit	Weights	Weighted Profit	Weighted Average Profit after Tax = (Total of Weighted Profit / Total of Weights) = (1162000/10) =116200
2014	Rs. 88000	1	88000	
2015	Rs. 103000	2	206000	
2016	Rs. 116000	3	348000	
2017	Rs. 130000	4	520000	
Total		10	1162000	

Economic situation in 2013 was abnormal thus not considered for calculating Weighted Average Profit after Tax:

Computation of Future Maintainable Profit:

Particulars	Amount (Rs.)
Weighted Average Profit after Tax	116200
Profit Before Tax [116200*100/60]	193667
Future Adjustments::	
Add: Annual Cost Savings due to installation of new production system	40000
Less: Increase in wages and salaries bill	(20000)
Adjusted Profit Before Tax	213667
Less: Tax @ 50%	106833
Future Maintainable Profit	106834

Computation of Normal Rate of Return:
Average Dividend Rate = (10%+10%+15%+15%)/4 = 12.50%
Thus dividend = Rs.100 (being the face value) * 12.50% = Rs. 12.50
Normal Rate of Return = (Dividend/Market Price of Shares)*100=(12.50/125)*100 = 10%
Net Asset as on 31/12/2017 and 01/01/2017:

Particulars	Amount (Rs.)
Plant Property and Equipment	420000
Debtors	80000
Other Current Asset	400000
Total of Asset	900000
Less: External Liabilities:	
Creditors	(224000)
Provision for Taxation	(39000)

Net asset as on 31/12/2017 (Closing)	637000
Less: Profit after dividend Rs. [130000-(500000*15%)] i.e. since only Rs. 55000 is included in the Closing Capital	55000
Net asset as on 01/01/2017 (Opening)	582000

[Goodwill here represents purchased goodwill (i.e. capital loss) thus only tangible trading assets are considered for the purpose of calculation of Net Assets.
Net Assets = Tangible Trading Assets at Replacement Cost-External Liabilities]
Average Capital Employed = [(opening capital employed + closing capital employed)/2]
=Rs. [582000 + (637000+75000)]/2 = Rs.647000
[since the dividend of Rs. 75000 (i.e. 500000*15%) is declared at the end only, thus included in the closing value]
Normal Profit = (Average Capital Employed * Normal Rate of Return)
= Rs. (647000*10%) = Rs. 64700
Future Maintainable Profit = Rs. 106834
Super Profit = Future Maintainable Profit – Normal Profit) = Rs. 42134
Goodwill = (Super Profit * Annuity Value) =Rs. (42134*4.355) = Rs. 183494.
[Annuity value of Re.1 @10% rate of discount for 6 year is 4.355]

Leverage Effect on Goodwill

Leverage effect on goodwill shows the difference in the value of goodwill calculated under the assumption of equity fund approach and total fund approach.
Let us consider the following illustration for better understanding:
Illustration 2: Determine the effect of leverage on goodwill:
Future Maintainable profit before interest Rs. 100000
Normal Rate of Return:
On equity capital employed: 14%
On long term capital employed: 12%
10% Debenture Rs. 300000
Equity Fund is Rs. 700000
Ignore tax effect.
Solution:
Computation of Future Maintainable Profit:

Particulars	Equity Fund Approach (Rs.)	Total Fund Approach (Rs.)
Future Maintainable profit before interest	100000	100000
Add: Interest	-	30000
Future Maintainable profit	100000	130000

Computation of Actual Capital Employed:

Particulars	Equity Fund Approach (Rs.)	Total Fund Approach (Rs.)
Equity Fund	700000	700000
10% Debenture	-	300000
Actual Capital Employed	700000	1000000

Determination of Leverage effect on Goodwill:

Particulars	Equity Fund Approach (Rs.)	Total Fund Approach (Rs.)
Future Maintainable Profit	100000	130000
Normal Rate of Return	14%	12%
Capitalised value of Future Maintainable Profit (Future Maintainable Profit/ Normal Rate of Return)	714285	1083333
Actual Capital Employed	700000	1000000
Goodwill	14285	83333
Leverage effect on Goodwill	Rs.(83333-14285) = Rs.69048	

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INDIRECT TAX

LAWS & PRACTICE (ITP)

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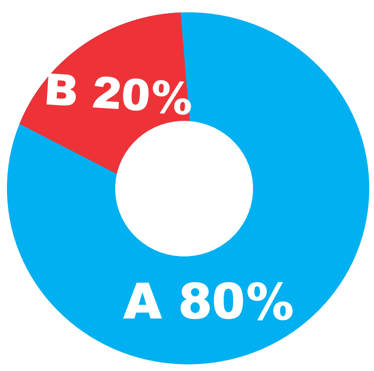
Your Preparation Quick Takes



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:

Concept of amendment of GST Registration;
Need for amendment of GST Registration;
Time limit, Applicant and Application for amendment of GST Registration;
Types of information that require amendment;
Impact of change in PAN on GST registration;
Amendments requiring approval of proper officer;
Process of approval by proper officer;
Impact of unwarranted amendments or defective amendments documents.

AMENDMENT OF REGISTRATION DETAILS UNDER GST LAW

Introduction

Registration happens to be a very important procedure under the GST laws. The statutes provide details regarding the registration of an entity under the GST provisions. Amendment, in the context of GST registration, refers to any change or update that is required to be made in the GST registration details.

Need for amendment of GST Registration details

The need for such amendment arises in the following two cases:

- In case some mistake or error was committed by the person opting for registration at the time of making application for registration; or
- In the event of actual change in the details/ facts (submitted during registration) subsequently in the regular course of operations.

Time limit for amendment

The GST statute clearly specifies the time limit within which the amendment of any details should be made a registered person. The registered person has to inform regarding any changes in the information (either furnished at the time of registration, or subsequently) with **fifteen days** of such change.

Who can apply for amendment of the GST Registration details

A registered person (called the Applicant) can apply for the necessary amendments in its registration certificate in the event of any change in the facts/ details already submitted at the time of taking registration or at the time of previous amendment.

Application for seeking Amendment

The applicant is required to submit an application, duly signed, electronically in FORM GST REG-14.

Types of information that require amendment

Any information that has been submitted by a person (either at the time of seeking registration or subsequently) is required to amended whenever there happens any change in the information already furnished. The information that require amendment may include any of the following:

- change in legal name of business;
- change in the principal place of business;
- addition of the place of business;
- reconstitution of the managing members of the registered entity, responsible for day to day affairs of the business;
- change in contact details (viz.) of the authorised signatory etc.

Implication of change in PAN on GST Registration

Where any mistake is committed in the Permanent Account Number (PAN) or any change in the constitution of any business results in the change in the Permanent Account Number (PAN) of the registered person, the said person shall have to apply for a fresh registration. In other words, in such a case, the applicant will have no other choice except to file for a fresh registration using FORM GST REG-01. This is due to the fact that GSTIN is based on the PAN.

Amendments requiring approval of Proper Officer

Certain specified changes in the information furnished (at the time of registration or subsequently) can be amended only after receiving the approval of the proper officer. Such changes are change with respect to:

- the legal name of business;
- the address of the principal place of business or any additional place of business;
- any additions, deletion or retirement of Partners, Directors, Karta, Managing Committee, Board of Trustees, Chief Executive Officer or equivalent, responsible for day to day affairs of the business.

The application for such 'specified' amendments has to be made within due date in FORM GST REG-14.

It is to be noted that permission of the proper officer for making amendments will be required for only the core fields of information (mentioned above), while for any change in the other fields of information, the Certificate of Registration shall stand amended upon submission of application in the GST common portal.

Process of Approval by Proper Officer

In the event of seeking any specified amendment by the applicant, the following provisions are to be taken note of:

- **No rejection without any opportunity of being heard**: The proper officer shall not reject the application for amendment in the registration particulars without giving the person an opportunity of being heard.
- **Time limit for granting approval**: The proper officer shall approve any of the specified amendment(s) within fifteen working days from the date of receipt of application in FORM GST REG-14 after due verification, and issue an order in FORM GST REG-15 electronically. Such amendment shall take effect from the date of occurrence of the event warranting amendment.
- **On proper officers failure to take any action**: If the proper officer fails to take any action regarding the specified amendments:

  [a] within fifteen working days from the date of submission of application, or
  [b] within seven working days from the date of receipt of reply to the notice to show cause, the following would take place:

- the Certificate of Registration shall stand amended to the extent applied for; and
- the amended certificate shall be made available to the registered person on the GST Common Portal.

Impact of Unwarranted Amendment or Amendment seeking documents being incomplete or incorrect

In the event of an unwarranted amendment or when the amendment seeking documents are incomplete or incorrect, the following procedure is required to be observed:

- **Issuance of Show Cause Notice (SCN) by proper officer**: Where the proper officer is of the opinion that the amendment sought is either not warranted or the documents furnished therewith are incomplete or incorrect, he may, within fifteen working days from the date of receipt of the application in FORM GST REG-14, serve a notice in FORM GST REG-03, requiring the registered person to show cause, within seven working days of the service of the said notice, as to why the application submitted shall not be rejected.
- **Reply by applicant**: The procedural provisions regarding the reply of the applicant are as under:

    - The applicant seeking the amendment shall be required to furnish a reply to the SCN, issued in FORM GST REG-04 within seven working days from the date of the service of the said notice.
    - Where the reply furnished is not found to be satisfactory or where no reply is furnished in response to the notice issued within the period, the proper officer shall reject the application submitted and pass an order in FORM GST REG-05.

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COST & MANAGEMENT AUDIT (CMAD)

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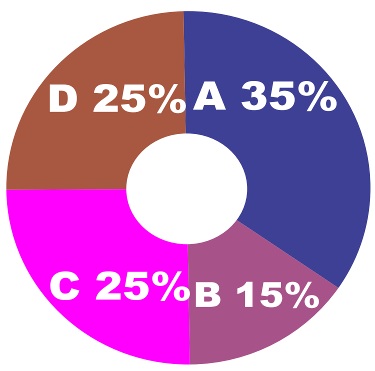
Your Preparation Quick Takes



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

Reporting on Performance Analysis

The Cost Auditor has to provide his observations and suggestions under Para 2 of the Cost Audit Report as per CRA – 3 format. It is not specifically mentioned anywhere about the areas / points to be covered under this para. But, it can be assumed that the matters that are covered under this para should be in regards to those issues that affect the cost of the product / service.Therefore observation and suggestions are given by the auditor under this para based on the 'Performance Analysis' of the operations of the company related to its production process keeping in mind cost optimisation and/or cost reduction to enable company to be cost competitive.

The Cost Auditor has the power and authority as per the power given by the section 143 (1) and 143 (14) of The Companies Act 2013. So, for the requirements of Para 2 of the CRA – 3, the Cost Auditor is entitled to cover any area of activities of the company including for earlier years for fulfilment of his duty.

In this article, emphasis has been to cover those areas that the Cost Auditor can provide in the observations and suggestions in the Cost Audit Report after doing the 'Performance Analysis'.

The basic objective of Performance Analysis is to provide an actionable insight into costs and profitability for the management in the strategic and operational context. It aims at discovering various drivers of costs and profitability and their impact on the selected performance variables. This shall require understanding the unique industry specific factors that govern the operations of the company. This is important because the factors affect the company vary from industry to industry. For example, the companies that makes non-homogenous products like a Boiler for a Thermal Generation of Electricity shall have unusual amount of variable costs every year as the projects may differ in technical specification. Similarly for an electricity company who generate/transmit/distribute the electricity the issues are different. Therefore, the Cost Auditor should have a thorough knowledge about the industry and the operations.

However, there are some indicative contents that can be included in the observations that reflect about the costs. The following are the areas:

1. Production / Capacity Utilization Analysis
2. Productivity / Efficiency Analysis
3. Utilities efficiency Analysis
4. Manpower Analysis
5. Key costs and Contribution analysis
6. Product Profitability Analysis
7. Market Profitability Analysis
8. Working Capital and Inventory Management Analysis

The above points are also discusses in the Study Note 7 of the Paper – 19 study materials. However it is explained below considering the importanceof above analysis.

1. Production / Capacity Utilization Analysis

The production and capacity utilisation information is provided in the Annexure 1 Part B & C of CRA – 3. This information does not provide the information about the normative capacity that can be achieved. The capacity utilization can only be correctly determined when the normative capacity is established. For normative capacity determination, an average of 3 / 5 years of capacity maintained can be taken into consideration. This may vary with the technical specification. The Cost Auditor should consider the various factors responsible for the difference between them and arrive at the capacity to be taken as 100% capacity. The capacity is crucial for the determination of effect of fixed costs and variable costs that has link to the cost of the product / service.

The Auditor can refer to the CAS-2 stating about the determination of capacity to properly determining the capacity of the company.

2. Productivity / Efficiency Analysis

The productivity analysis refers to the efficient usage of the resources / inputs for product and services. Since around 80% of the cost is accounted for the raw-materials consumed, this needs for a strict monitoring of the efficiency of usage of raw-materials. Since most of the organisations have a budget for usage of materials, the Cost Auditor should observe for the basis of such budget. One of the method to notice any significant losses in usage of materials is observing the trends of input-output ratio or yield ratio and raw-materials consumed to finished product of previous years. Further this also needs to compared with the norms provided by machinery supplier and also the quality/purity of input materials. Higher ratio shall result in increase in costs.

The performance measures in respect of this area could be:

- inputs utilised (material, man, machine, capital etc) per unit of output or output obtained per unit ofan input variable
- Wastages as percentage of input
- Indices could be developed for Single Factor Productivity (SFP), Multi-Factor Productivity (MFP), TotalFactor Productivity (TFT)
- Inter-relationships in various productivity measures e.g. output per man-hour may have increase, butif it is accompanied by higher wastage per man hour, then there is no real benefit.

3. Utilities efficiency Analysis

The production process requires usage of utilities for continuous production process. After the direct costs, the cost of utilities are the most important costs that the company has to incur. The utilities can be in form of electricity, air, steam,internet and / or any other material that plays an integral part of production process which is not found in the finished goods / services. In other words they are a substantial part of conversion cost. For the measurement of efficiency, the Cost Auditor should arrive at the standard cost of utilities per unit and the trends of last three to four years.

4. Manpower Analysis

The cost of manpower is reflected in the financial statements as Employee Costs for the company as a whole. But in the case of Cost Statements, the manpower is segregated in categories like Direct Labour, Other Production Overheads, Administrative Overheads, and Quality Control Overheads etc. This segregation is for each and every cost centre and for each product / service. Availability of such data can help the company for the planning of the manpower requirements or Human Resource planning and thus the estimation of costs to be incurred in recruitment and training. The performance of the employees is directly connected to the profitability of the company. These kind of data can be very helpful to establish an incentive scheme to motivate the employees. The Cost Auditor should critically analyse the costs to find out any idle time – normal / abnormal. The normal idle time are to be included in the cost whereas the abnormal are to be excluded and are to be targeted to be reduced. The Cost Auditor should also focus on the Labour turnover. The higher the turnover, the higher the cost to the company.

5. **Key Costs and Contribution Analysis**

The recovery of variable cost is significant for the long term sustainability of the company. Variable cost deducted from Sales provides for Contribution. This calculation also helps in calculation of Breakeven Point and Margin of Safety. This has impact on profitability. The Cost Auditor should view the trend of contribution relating to key costs and highlight any significant variation during those periods. Again, the relevance of Capacity Utilisation comes to the picture for deciding the fixed cost to be adopted. The fixed cost during the maintenance of Normative Capacity should be taken into consideration for calculation of Breakeven Point or Margin of Safety.

The scope of this analysis is only possible in the cost statements as the financial statements does not provide for the variable and fixed costs of each and every product / service. The Cost Auditor based on the nature and his judgement classify and accumulate the costs as fixed and variable to enable such analysis.

6. **Product Profitability Analysis**

The Cost Statements are prepared for each and every product / service. The companies that have multiple products or those that provide multiple services need to know the profitability of each and every product / service. The future sustainability of the company depends upon the profitability of each product / service. This can also help the management decide which product / service is to continue and which ones to discontinue and which one provides for maximum contribution to the company as a whole. Moreover, the company can take decisions regarding pricing of the products / services to retain the competitive edge in the market. The profitability can be found out at various stages of cost like – Cost of Production and Cost of Sales that enables the company to identify the efficiency in each stages.

To provide for such an analysis, the Cost Auditor has to have a keen knowledge of the production process and also the accounting policy and system of the company.

7. **Market Profitability Analysis**

The primary objective of such an analysis is deriving aarea/location-wise analysis of the profitability of a product / service. The company may have different locations for market and there may be a variation in sales price in each of those places. Since the company has to maintain record for each branch, the information required for such an analysis can be obtained. The company incurs additional costs to make the products / services available to different places. This changes the Cost of Sales, if not Cost of Production, for every product / service. This kind of analysis shall provide a better picture to provide for reasonability of the incurrence of such extra costs. Such segregation of products / services is called Market Segmentation. The company can analyse the requirement of the customers of each market and can initiate measures for cost reduction or may plan for gradual opting out of such markets if the contribution from those markets are not fulfilling the expected Return on Investment. Moreover observing the trend of such an analysis can help the company to get the indication about the future of its presence in the particular market.

8. **Working Capital and Inventory Management Analysis**

Inventories management is a very crucial part, as the entire production plan is dependent upon it. Overstocking results in blockage of capital whereas understocking risks for stoppage in production. The availability of the materials required and the lead time are some of the important factors to be considered for the procurement of the materials. This directly impacts the working capital requirements of the company. The holding period of the materials provides a better picture of the inventory position throughout the year. The costs incurred in such inventory maintenance directly affects the profitability of the product / service. The Cost Auditor should review the mechanism adopted for the inventory management and comment if it is commensurate to the nature and scale of the business that the company is involved.

The above list is indicative about the areas that should be covered by the Cost Auditor that reflects the Performance of the company. The above mentioned lists may vary according to the sector of industry to which the company belongs. There is no limiting factor as the Cost Auditorhas been given full access to all the records of the company. During the execution of audit, if the Cost Auditor discovers any area of discrepancy or any room for improvement, the same can be incorporated in the Para 2 of the CRA – 3.

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GROUP: 4, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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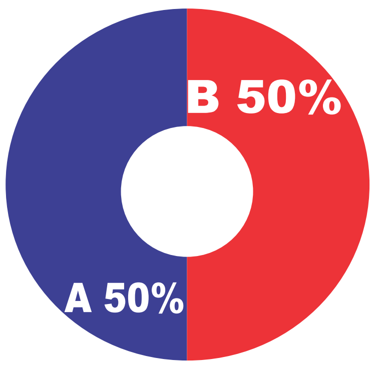
Your Preparation Quick Takes



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

Learning Objectives:

After studying this section on Strategic Performance Management and Business Valuation, you will be able to:

understand dividend discount model of equity share
derive the zero growth and constant growth models of equity share

Strategic Performance Management and Business Valuation

The dividend discount models are very attractive due to their simplicity and intuitive logic. The equity shares provide an expected future cash flow in the form of dividends and price that the investors expect to receive when they sell the shares.

According to this model, the value of an equity share is the present value of expected stream of dividends plus the present value of the price expected to be realized if the equity share is sold. Since there is no maturity period for the equity shares, the value of an equity share of infinite life is equal to the discounted value of the future stream of dividend. Thus,

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \ldots\ldots + \frac{D_\infty}{(1+k)} = \frac{D_t}{t=1\,(1+k)^t} \quad (1)$$

Where,

P_0 = Intrinsic or theoretical value of equity shares,

D_t = Dividends the shareholders expect to receive at the end of the year t.

k = Minimum Acceptable or required rate of return on the share, considering both its riskiness and returns available on other investments.

The same equation (1) can be applied to the valuation of an equity share with a finite duration provided that the investors hold the same for n years and then sell it at a price P_n. The value of an equity share of finite duration would be:

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \frac{D_n}{(1+k)^n} + \frac{P_n}{(1+k)^n} = \sum_{t-1}^{n} \frac{D_t}{(1+k)^t} + \frac{P_n}{(1+k)^n} \quad (2)$$

From the general expression of (1) and (2) we can derive the different expression for single period share valuation model and multi period share valuation model.

Single Period Valuation

Under, single period valuation, let us assume that the investor holds the share for one period and sell it at a price P_1 at the end of the holding period, there is no growth in share price and the expected dividend is D_1. Under this assumption, the theoretical value of the shares (P_0) is given by using (2):

$P_0 = D_1 / (1+k) + P_1 / (1+k)$ (3)

where, k is the required rate of return.
If we assume that the share price is expected to grow at g percent, then we can write P_1 as follows:
$P_1 = P_0 (1+g)$ where, $g = \{(P_1 - P_0)/P_0\}$
So the expression (3) can be written as:

$$P_0 = \frac{D_1}{(1+k)} + \frac{P_0(1+g)}{(1+k)}$$

$$\text{Or}, P_0 = \frac{D_1 + P_0(1+g)}{1+k}$$

$$\text{Or}, P_0(1+k) = D_1 + P_0(1+g)$$

$$\text{Or}, P_0(1+k) - P_0(1+g) = D_1$$

$$\text{Or}, P_0(1+k-1-g) = D_1$$

$$\text{Or}, P_0(k-g) = D_1$$

$$\text{Or}, P_0 = D_1 \div (k-g) \quad (4)$$

Multi Period Valuation

Equation (1) represents a very general model and is applicable regardless of whether the level of expected dividends is growing, fluctuating or constant. The general model can be simplified if the firm's dividends are expected to follow some basic patterns:
(1) Zero Growth, (2) Constant Growth and (3) variable Growth. In this issue zero growth and constant growth models of equity share have been discussed.

Case 1: Zero Growth Model

If we assume that dividends per share remains constant year after year at a value of D, value of equity shares using (5.1) will be:

$$P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \ldots\ldots\ldots\ldots\ldots + \frac{D_\infty}{(1+k)} \qquad \text{Where}, D_1 = D_2 = \ldots\ldots = D = D \text{ (constant)}$$

$$= \sum_{t=1} \frac{D_t}{(1+k)^t}$$

$$= \frac{D_1 \div (1+k)}{1 - 1 \div (1+k)}$$

$$= \frac{D_1 \div (1+k)}{k \div (1+k)}$$

$$= \frac{D_1}{(1+k)} \times \frac{(1+k)}{k}$$

$$= D_1 \div k$$

$$= D \div k \qquad (5)$$

This series is an infinite GP series with the first term (a) = D_1 / (1+k) and common ratio (r) = 1 / (1+k). Therefore, sum of this series will be {a / (1-r)}.

This model is not applied for the companies which tend to pay a different amount of dividend over the course of their life cycle. However, the model is best suited for companies that pay a constant dividend overtime.

Case 2: Constant Growth Model (Gordon Model)
This model assumes that earnings and dividends will grow at a constant rate (g) but the growth rate is less than the required rate which is a necessary condition for the derivation of the model. The value of a share under this assumption is:

$$P_0 = \frac{D_0(1+g)^1}{(1+k)^1} + \frac{D_0(1+g)^2}{(1+k)^2} + \ldots\ldots\ldots\ldots + \frac{D_0(1+g)^{\infty}}{(1+k)}$$

$$= \sum_{t=1} \frac{D_0(1+g)^t}{(1+k)^t}$$

This series is an infinite GP series with first term (a) = {Do(1+g)}/(1+k) and common ratio (r) = {(1+g)/(1+k)}. Therefore, sum of this series will be {a / (1-r)}.

$$= \frac{a}{(1-r)}$$

$$= \frac{\frac{D_0(1+g)}{(1+k)}}{1 - \frac{(1+g)}{(1+k)}}$$

$$= \frac{\frac{D_0(1+g)}{(1+k)}}{\frac{(1+k-1-g)}{(1+k)}}$$

$$= \frac{D_0(1+g)}{(1+k)} \times \frac{(1+k)}{(k-g)}$$

$$= \frac{D_0(1+g)}{(k-g)}$$

$$= \frac{D_1}{(k-g)} \qquad (6)$$

This model requires highly restrictive assumptions and accordingly, it is best suited to firms that are growing at a steady rate that is comparable to or lower than the nominal growth rate in the economy. These firms should also have well established dividend policies. This model does not work if these assumptions are not fulfilled.

Positive Self - Talk

01.00 Self-Talk

When making a good decision you have to think positively prior to being able to handle the issue effectively. Self-Talk is the act or practice of talking to oneself, either aloud or silently and mentally. Self-talk to some individuals is inner thoughts they hear daily. Positive Self-Talk is one's constant internal conversation to build up encouragement or motivation. Understanding and changing the way you talk to yourself can really take you a long way further ahead in this world.

We keep hearing favourable as also unfavourable things which our mind and our brains pick up and store them for further use on autopilot (subconsciously). In the process of self-talk our subconscious mind recalls these thoughts and makes use of them in decision making leads. Positive self-talk recapitulates favourable things whereas negative self-talk puts forth unfavourable ideas.

In order to make the best of the decisions, we need to change the way we think in such a way as to overpower the unfavourable ideas and take forward the positive ideas. Some simple thoughts could be like 'I can do this or I will manage this alone'. Keep duplicating these consistently until the subconscious quits and backs off the negativity to let your self-talk become more and more positive.

If we are thinking and doing negative things, we will never ever get anywhere in this world. Our sense of wellbeing will decrease pretty quickly since we will not be encouraged to get off our backsides. Negative thoughts take control and we blow ourselves out of the water.

With a positive mental attitude in life, you can be healthier and be successful at anything you want to be when you think positively and engage in second person constructive self-talk and first person affirmations.There are many ways you can change the way you self-talk. There are several kinds of practice exercises that create positive thinking. When you sit down and chat with yourself, for example, you can really get to know who you are and begin to feel better about your self-image.

Use whatever way you feel comfortable with as a starter to set things in motion. For instance, one of the first things you may tell yourself in self talk is in recognising that you have choices. “My choices are huge. I have the option to make my life better if I put my mind to it. These are the thoughts you can use in self talk that can lead you into a conversation to assist you in discovering how to improve your quality of life.”

02.00 Mental Chatter

Learning to control and manage your mental chatter is one of the most fundamental elements to improving your life. And awareness of your mental chatter is the foundation to managing it. Amazingly, people tend not to notice their mental chatter despite its presence nearly every waking moment of their lives, like a fish in water.

03.00 AnExercise

1. Carry a notebook or a few sheets of paper for a week or two
2. A few times each day write your exact thoughts — not the general
3. Note the following
    1. What prompts each instance
    2. What emotions relate to it
    3. How the instances relate to each other, what categories they fit in

Each time you write will probably take a few minutes. The whole exercise will take about an hour over a week or two.

At first writing your thoughts will feel like drinking from a fire hose. You can't write fast enough to keep up with your thoughts. Writing changes your thoughts, so you have to figure out how to write what you were thinking. Part of the reason to do the exercise over a week is to get past initial distractions to observe your mind at work.

To get more out of the exercise, write up what you've observed when you finish, especially trends in what you noted in step 3. To get yet more, do it with others and compare results.

04.00 Know Yourself

Use self-talk and positive thinking to get to know yourself much better. This
will help you discover responses that have been sitting in front of you all along. Research each element of your self-talk. When you talk with yourself, pay attention as you would if you were listening to your finest pal when they talk with you.

Continue your self-talk each day so that you establish a self-talking daily routine. If you cease it will only set you back and you will have to start your self-treatment all over again to attain your goals. You can also rely on support groups, supportive family members, friends, etc to reach your objectives. Just do it day-to-day to reach your goals.

05.00 Quick Take

Start your 'Positive Self-Talk' right now!

Examination TIME TABLE

Day & Date	Final Course Examination Syllabus - 2016 Time 2.00 p.m. to 5.00 p.m
Monday, 11th June, 2018	Corporate Laws & Compliance (CLC)
Tuesday, 12th June, 2018	Strategic Financial Management (SFM)
Wednesday, 13th June, 2018	Strategic Cost Management - Decision Making (SCMD)
Thursday, 14th June, 2018	Direct Tax Laws and International Taxation (DTI)
Friday, 15th June, 2018	Corporate Financial Reporting (CFR)
Saturday, 16th June, 2018	Indirect Tax Laws & Practice (ITP)
Sunday, 17th June, 2018	Cost & Management Audit (CMAD)
Monday, 18th June, 2018	Strategic Performance Management and Business Valuation (SPBV)

PRACTICAL Advice

ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

Read Study Notes
MTPs & RTPs

Solve Excercises
given in Study Note

Assess Yourself

Appear For
Examination

SUBMISSION

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.

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.

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

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.

Please Note:

For benefit of the student of the Institute and changes in syllabus made in few subjects which becomes effective from June,2018 term of examination, Directorate of Studies have introduced webinar classes both for Intermediate & Final course students under syllabus 2016. Webinar class is going to start from April 23, 2018 onwards on the selected subjects details of which are available following this link: **http://icmai.in/icmai/news/889.php**
For your information, GST under New Syllabus has already been uploaded. Pl follow the given link:
Desired Link- Revised Contents-**http://icmai.in/upload/Students/Syllabus2016/Syllabus2016_Revised_Contents.pdf**
New Study Materials based on GST has been uploaded too. Please refer to that for the smooth flow of your preparation:
Intermediate Study Material-**http://icmai.in/studentswebsite/Syl-2016-Inter.php**
Final Study material-**http://icmai.in/studentswebsite/Syl-2016-Final.php**
For Mock Test Papers (MTP) - **http://icmai.in/studentswebsite/mtp2016_j18_Final.php**
For PPT on Achieve Your GOAL : **http://icmai.in/studentswebsite/**

Be Prepared and Get Success;

Snapshots of 58th National Cost Convention 2018, 16-17 March 2018, Vigyan Bhawan, New Delhi

Behind every successful business decision, there is always a CMA

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