E-mail: studies.ebulletin@icmai.in | Website: www.icmai.in
Toll Free: 1800 345 0092/1800 110 910

CMA STUDENTS'
E - bulletin

VOL. 1 NO. 1
NOVEMBER, 2016 ISSUE

FINAL

www.icmai.in

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100

Follow us on

Behind every successful business decision there is always a CMA

message from the president

Dear Students,

"Education is the best friend. An educated person is respected everywhere. Education beats the beauty and the youth" - Chanakya

Today's World needs innovation and skill the most. Professionals without dedication and determination cannot deliver their best. To meet your commitment towards the course and to encourage your efforts, the Directorate of Studies has implemented this E-bulletin. The dictum is providing you the guidance of subjects, with the help of reputed teachers who can up-date your knowledge base in the concerned subjects in your curriculum.

My request to all Future CMAs is; you please develop the capacities in you to meet the needs of the country, hence, build the needed skill in you by reading all the subjects carefully. This course will help you take away your best and in turn will help you equally to deliver the society at large.

In this digital World, modern generation students prefer to study in the electronic mode. Hence, I am sure they will enjoy reading this **E-bulletin.**

I am thankful to the Professors who, out of their affection and love to the students have extended their support to the Directorate of Studies during this short period of time.

I pay my sincere thanks to the Directorate of Studies for the new initiative taken to motivate the students.

A positive mind can deliver the best. So, think positive and stay healthy.

I will put an end with the words of one of the great philosophers of all time; Aristotle, who said -***"The roots of education are bitter, but the fruit is sweet".***

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

message from the chairman

It is my pleasure indeed to address to the budding Cost and Management Accountants through this E-bulletin to facilitate your study plan to learn and perform during Examinations to achieve success.

Swami Vivekananda said on concentration ***"The very essence of education is concentration of mind not the collection of facts."*** Therefore, to learn one has to develop the power of concentration without which no learning process can take place be it any field like education, games etc.

Now to equip you, Institute has provided the required and sufficient information to the students for preparation of subjects received from experts of various disciplines, who have extended tips on the subjects for betterment in your preparation.

Time is possibly the most important factor in the preparation, thus, students should manage their time for its optimum utilisation. First and foremost before starting preparation a student should prepare a time-table preferably on weekly basis covering the topics for each of the subjects. To prepare the study plan, map out all of the material content that has to be covered and make a schedule showing what, when and how much you will study each day for each of the subjects. Set clear and specific goals for the study and mind it that mere planning would not deliver unless you implement it properly. Check the answers to the practice questions to diagnose your strengths and weaknesses. If you are weak in an area, go back and study it further to address the gaps.

The sample questions can be sourced from old exams and Mock Test Papers (MTPs). Practice those meticulously parallel to your study notes. Even though you are only practicing, it is better to write full answers during your preparation to the questions so you can work through the entire thought process.

I wish you all a great success.

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

VOL. 1 NO. 1
NOVEMBER, 2016 ISSUE

contents

KNOWLEDGE UPDATE

As the examination is approaching we would like to share some of the thoughts progress which will help students towards their preparation.

Group III

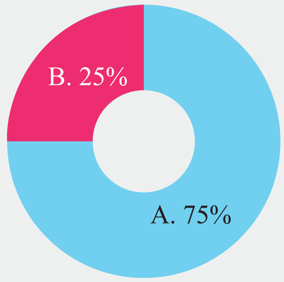
PAPER 13: CORPORATE LAWS AND COMPLIANCE (CLC)

Shri Subrata Kumar Ray
Company Secretary, MSTC Ltd
He can be reached at:
subrataoffice@rediffmail.com

Your Examination Quick Takes;

1. Your Syllabus for this paper is divided into following ways;

A. Corporate Laws - 75%
B. Corporate Governance and Responsibilities - 25%



2. How to answer questions in Examination - General Advise

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

3. Companies Act, 2013

Certain points to be remembered while studying:

- Stress on the changes and new introduction in the New Act.
- Read Step by Step.
- Make notes of points only for revision.
- Consult dictionary if the meaning is not known.
- Revise the chapters once you complete reading.
- Threshold limits mentioned under various provisions are to be read and remembered.

Company Law may be divided into Five Parts:

- Interpretation and types
- Management of the Company
- Accounts, Audit and Dividend
- Shareholder's role and rights
- End of a company

Study the study note meticulously. For clarity and further study you may keep the bare act alongwith the Companies Act with you for reference.

Special care should be taken to understand the definitions of various terminologies used in the Companies Act.

4. SEBI Laws and Regulations

Don't read the whole question paper: Start writing a question without wasting time.

Student should have a fair view of the SEBI, its constitution and powers. Clause 49A of the Listing Agreement is now Listing Obligation and Disclosure Requirements (LODR) regulations.

SCRA deals with the Central Government's power to recognize/derecognize a stock exchange and matters relating to transfer of shares and securities. Since most of the shares are being traded in dematerialization form, SCRA has to be read with Depositories Act.

A general and suggestive note on Competition Act is placed below for reference of students.

5. Competition Law in India

5.1 Competition policy

- While the concept of open market economy would ensure adequate competition, worldwide experience indicates that some enterprise do try to undermine the market by resorting to anti-competitive prices. Government measures that affect the behavior of enterprises and structure of the industry with the view to promote efficiency and maximize welfare.

- US has Federal Trade Commissions Act through which federal trade commission is set up to as a market watchdog and empowered to take action against violation of the enactment.

The European union also has set of competition laws strengthened by European Merger Regulations, 1989.

In UK the MRTP (Inquiry and Control) Act was enacted in 1948 and was repealed by competition act, 1998.

5.2 Monopoly houses and cartels

- Few firms
- barriers to entry
- low technological advancement
- homogeneous products/ services
- uniformity in cost and efficiency

5.3 International experience

Japan: 16.5% price rise
Seweden/Finland: 20-25% reduction in price following enforcement
UK: 30% reduction in prices

➢ There are two elements of competition policy:-

- First, a set of policies, such as liberalized trade policy, relaxed FDI policy, de-regulation, etc., that enhance competition in the markets.

- Second, legislation to prevent anti-competitive practices with minimal government intervention.

5.4 Competition law in India

The Monopolies & Restrictive Trade Practices Act, 1969 (into effect on 1st June 1970.)

The Government appointed a committee in October 1999 to examine the existing MRTP Act for shifting the focus of the law from curbing monopolies to promoting competition and to suggest a modern competition law. Pursuant to the recommendations of this committee, the Competition Act, 2002, was enacted on 13th January 2003.

It provides for different notifications for making different provisions of the Act effective including repeal of MRTP Act and dissolution of the MRTP Commission.

6.0 Competition Act, 2003

- The Monopolies & Restrictive Trade Practices Act, 1969 is the first enactment to deal with competition issues and came into effect on 1st June 1970.

- The Government appointed a committee in October 1999 to examine the existing MRTP Act for shifting the focus of the law from curbing monopolies to promoting competition and to suggest a modern competition law. Pursuant to the recommendations of this committee, the Competition Act, 2002, was enacted on 13th January 2003. It was subsequently amended in 2007.

- It provides for different notifications for making different provisions of the Act effective including repeal of MRTP Act and dissolution of the MRTP Commission.

- Under the Act, Competition Commission of India and the Competition Appellate Tribunal have been established.

6.1 Competition Act notification

- and Members, appointment of staff, undertaking of competition advocacy have been notified.

- Other provisions of the Act are yet to be notified such as those relating to adjudication of anti-competitive practices and regulation of combinations.

6.2 Objectives of the Act

The objectives of the Competition Act are to:

- prevent anti-competitive practices,
- promote and sustain competition,
- protect the interests of the consumers and
- ensure freedom of trade.
- competition advocacy by creating awareness among various levels at Government, industry and consumers.

The objectives of the Act are sought to be achieved through the instrumentality of the Competition Commission of India (CCI) which has been established by the Central Government with effect from 14th October, 2003.

6.3 CCI is a body corporate and shall have a full time chairman with minimum 2 and maximum 6 to 7 members. Commission may appoint Secretary and other officers as may be required.

Functions of Competition Commission of India (CCI)

i. CCI shall prohibit anti-competitive agreements, which determine prices, limit or control markets, bid rigging etc.

ii. Abuse of dominance, through unfair or discriminatory prices or conditions, limiting or restricting production or development, denying market access etc. and regulate combinations (merger or amalgamation or acquisition) which cause or likely cause an appreciable adverse effect or competition through a process of enquiry.

iii. It shall give opinion on competition issues on a reference received from an authority established under any law (statutory authority)/Central Government.

iv. CCI is also mandated to undertake competition advocacy, create public awareness, promote competition, protect interest of consumers and ensure freedom of trade and impart training on competition issues.

v. Inquiry into certain agreements and dominant position by giving notices to the parties.

"Agreement" under the Act

An agreement includes any arrangement, understanding or concerted action entered into between parties. It need not be in writing or formal or intended to be enforceable in law.

6.4 Prohibition of certain agreement

A. Anti-competitive agreement shall be presumed to have appreciable adverse effect on competition and thereby deemed to be restrictive.

- An anti-competitive agreement is an agreement having appreciable adverse effect on competition. Anti-competitive agreements include:-

- agreement to limit production & supply,storage, distribution
- agreement to allocate markets
- agreement to fix price
- bid rigging (manipulating the bids) or collusive bidding (bidding with understanding among the bidders)
- conditional purchase/sale (tie-in arrangement)
- exclusive supply/distribution arrangement-limit/restrict/withhold/allocation of an area
- resale price maintenance
- refusal to deal

6.5 Abuse of dominance

Dominance refers to a position of strength which enables a dominant firm to operate independently in India of competitive forces or to affect its competitors or consumers or the market in its favour.

⊙ impedes fair competition between firms,
⊙ exploits consumers and makes it difficult for the other players to compete with the dominant undertaking on merit.
⊙ imposing unfair conditions or price, predatory pricing, limiting production/market, creating barriers to entry and applying dissimilar conditions to similar transactions.

6.6 Specific instances of dominanace in Competion Act

a. directly or indirectly, imposes unfair or discriminatory conditions in purchase or sale of goods or services, including predatory price;
b. limits, restricts production of goods/provision of services/ technical development
c. denial of market access
d. uses dominant positioning one market to enter into other relevant market.

6.7 Who can make a complaint?

⊙ Any person, consumer, consumer association or trade association can make a complaint against anti-competitive agreements and abuse of dominant position.
⊙ A **person** includes an individual, Hindu Undivided Family (HUF), company, firm, association of persons (AOP), body of individuals (BOI), statutory corporation, statutory authority, artificial juridical person, local authority and body incorporated outside India.
⊙ A consumer is a person who buys for personal use or for other purposes.

6.8 Orders the Commission can pass

⊙ During the course of enquiry, the Commission can grant interim relief restraining a party from continuing with anti competitive agreement or abuse of dominant position
⊙ To impose a penalty of not more than 10% of turn-over of the enterprises and in case of cartel - 3 times of the amount of profit made out of cartel or 10% of turnover of all the enterprises whichever is higher
⊙ After the enquiry, the Commission may direct a delinquent enterprise to discontinue and not to re-enter anti-competitive agreement or abuse the dominant position
⊙ To award compensation
⊙ To modify agreement
⊙ To recommend to the Central Govt. for division of enterprise in case it enjoys dominant position.
* Declare an agreement to be void.
* Violation of orders may result to imprisonment.

6.9 "Combination" under the Act and regulation thereof

Combination includes acquisition of shares, acquisition of control by the enterprise over another and amalgamation between or amongst enterprises.

Combination, that exceeds the threshold limits specified in the Act in terms of assets or turnover, which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India, can be scrutinized by the Commission.

6.10_In case of combination the threshold limits are-

For acquisition –

⊙ Combined assets of the firms (acquirer and the enterprise) is more than Rs 1500 Cr. or turnover is more than Rs. 4500 Cr. (these limits are US$ 750 millions including at least Rs. 750 Cr. in India and 2250 millions including at least 2250 million in India in case one of the firms is situated outside India).

⊙ The limits are more than Rs. 6000 Cr or Rs. 18000 Cr and US$ 3 billion including at least Rs. 750 Cr. in India and 9 billions including at least Rs. 2250 Cr. in India in case acquirer is a group in India or outside India respectively.

CG has exempted enterprise whose control, shares, voting rights or assets are being acquired has assets of value of not more than Rs. 250 Cr. and turnover of not more than Rs. 750 Cr.

Turnover means amount on sale of product or rendering of services of similar or substitutable goods or services. Group means two or more enterprise which directly or indirectly exercise 26% or more of voting right in other enterprise or appoint more than 50% of the directors or control affairs of the other enterprise.

6.11 For merger/amalgamation

⊙ Assets of the merged/amalgamated entity more than Rs 1500 Cr or turnover more than Rs. 4500 Cr (these limits are US$ 750 millions including at least and 2250 millions including at least Rs. 2250 Cr. in India in case one of the firms is situated outside India).

⊙ The limits are more than Rs 6000 Cr or Rs 18000 Cr and US$ 3 billion and 9 billions in case merged/amalgamated entity belongs to a group in India or outside India respectively.

Asset means written down book value and shall include intellectual property.

A firm proposing to enter into a combination, may, at its option, notify the Commission in the specified form disclosing the details of the proposed combination within 30 days of such proposal i.e. approval of the board of directors or execution of the agreement or other document for acquisition. No combination shall come into effect until 210 days have passed from the day on which the notice has been given to the Commission or Commission has given no objection, whichever is earlier.

The whole agreement shall be construed as "void" if it contains anticompetitive clauses. However, agreement for restriction for protection of intellectual property shall not fall under this category.

6.12 Procedure for investigation of combinations

If the Commission is of the opinion that a combination is likely to cause or has caused adverse effect on competition,

- It shall issue a notice to show cause the parties as to why investigation in respect of such combination should not be conducted.

- On receipt of the response, if Commission is of the prima facie opinion that the combination has or is likely to have appreciable adverse effect on competition, it may direct publication of details inviting objections of public and hear them, if considered appropriate.

- It may invite any person, likely to be affected by the combination, to file his objections. The Commission may also enquire whether the disclosure made in the notice is correct and combination is likely to have an adverse effect on competition.

6.13 Orders the Commission can pass in case of combinations

- It shall approve the combination if no appreciable adverse effect on competition is found

- It shall disapprove of combination in case it forms an opinion of appreciable adverse effect on competition

- May propose suitable modification in the agreement/arrangement.

6.14 Prohibition of abuse of dominance

i) an enterprise shall be considered to be dominant in the referent market in India, if -

a. operate independently of competitive forces;
b. affects the consumer, competitor or the relevant market in its favour.

ii) abuse of dominant position shall mean using of unfair or discriminatory condition in purchase or sale or price of goods and services or restricting quality of production, services or scientific development to prejudice customers, denial of market access, supplementary obligations or predatory pricing.

6.15 Regulation of combinations

i) no person shall enter into combination which causes or likely to cause appreciable adverse effect on competition in the relevant market in India;

ii) persons propose to enter into combination shall give notice to the Commission with 30 days of approval of the proposal by the Board or execution of any agreement;

iii) no combination shall be effective before lapse of 210 days of giving notice or getting approval of the Commission, whichever is earlier;

iv) do not apply to bank, FI, FII or venture capital fund. 7 days notice needs to be given to Commission.

7.0 Corporate Governance

7.1 Corporate Governance basically is a philosophy of management practice which requires the Company to follow ethical and transparent practice, comply with law and practice good governance in order to create faithful and trustworthy relationship with the stakeholders.

7.2 The modern concepts of stakeholders are the shareholders, creditors, suppliers, customers, the society and also the Government. All these stakeholders have certain kind of expectation from the Company. Any good company should meet the expectations.

7.3 The stress of Corporate Governance in India was made by the Capital Market Regulator, SEBI, when it made certain practices mandatory for the listed companies in the year 2006. In course of time, when the Companies Act, 2013 was enacted, we find that many provisions which were there in the Listing Agreement have been incorporated in the Act itself and have been made applicable to certain categories of companies, even when they are not listed.

7.4 One of the theory on which Corporate Governance exists is disclosure. There are various kinds of disclosures required under the Companies Act, and SEBI Regulations in the Directors' Report of the Company which are available to shareholders and outsiders. Various information about the company like whistle blower policy are to be hosted on the website of the Company.

7.5 Corporate Governance should not be a matter of legal compulsion. Corporates should voluntarily follow good governance practices which would enhance the image of the company in the minds of its stakeholders.

7.6 To conclude, Corporate Governance talks of good governance, disclosures, adopting fair practices towards stakeholders and to turn into a good corporate citizen.

8.0 Corporate Social Responsibility (Section 135)

Every company which has:

- a net worth of five hundred crore or more or;
- turnover of one thousand crore or more or;
- net profit of five or more during any financial year,

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

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

Group III

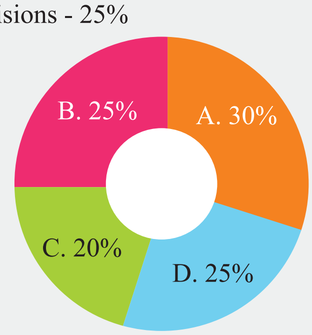
PAPER 14: ADVANCED FINANCIAL MANAGEMENT (AFM)

CMA (Dr.) Gautam Mitra
Professor,
Department of Business Administration,
The University of Burdwan
He can be reached at:
gautammitra6@gmai.com

Your Examination Quick Takes;

Your Syllabus for this paper is divided into following ways;

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



Title of this paper is Advanced Financial Management. It is clear that unless your basic idea on Financial Management is clear you cannot learn Advanced Financial Management.

It is an obvious question,
- How advanced financial management is different from financial management?
- What exactly are the different scopes of Advanced Financial Management!

In Financial Management we start with Time Value of Money and its applications.

After finishing four functional areas of CFO, i.e.:
i. Working Capital Management,
ii. Capital Budgeting decisions,
iii. Capital structure decision and
iv. Dividend decisions

We get basic ideas of:
I. Cost of capital ,
ii. Valuation,
iii. Derivatives,
iv. Merger & Acquisition and
v. Foreign Exchange Management.

However last four sections are usually not given their due importance.

In Advanced Financial Management, we mainly concentrate not only on those last four areas but also try to solve those issues from international perspectives.

For example we try to learn:

I. international capital budgeting problem and related risk,
ii. different statistical models associated with advanced portfolio management,
iii. valuation and strategies with exotic derivatives etc.

Your question of 100 marks is divided into two sections:

- In section A you need to answer 13 questions that require the basic knowledge in financial management.
- In section B you need to answer 5 questions of 16 marks each.

Solving last 5 terms questions of similar papers from different professional bodies in India and abroad have no substitute but first read one international level text book viz; Ross or Brigham.

How to study "financial derivative as a tool for risk Management", please refer your study note 7.

You now venture to study "Derivatives – the wild beast of financial before you start reading:
- What is derivative?
- How those are valued and applied?

I must tell you why should we need to learn about derivatives?

Haru is a farmer. He apprehends that mangoes, expected to be available in summer 2017 will be sold @Rs.1,00,000 approximately. Jadu a trader on the other hand is estimating his buy price within a range of Rs.1,25,000 to Rs.1,50,000 of same quantity and quality of mangoes in summer, 2017. Let's assume a possible negotiation between Haru and Jadu @Rs.1,15,000 at present through which, Haru sells forward and Jadu buys forward at a price of Rs.1,15,000.

How the contract manages risk of Haru and Jadu?

At summer 2017, if market price remains at Rs.90, 000, Haru will be able to sell on Rs.1,15,000 and can make a possible gain of 25,000 (Rs.1,15,000-Rs.90,000) on the other hand Jadu will make the possible loss of same amount as it would have been possible for him to buy @Rs.90,000, which he is under pressure to buy @1,25,000 – the contract price.

Students, derivatives are some special contracts to manage your financial risk. There are different ways you perceive your risk and in response to those risks, there are different tools of risk management.

i. Forward,
ii. Future,
iii. Options and
iv. Swaps

are different risk management tool that captures risks in:

- Commodity,
- Forex, and
- Capital market.

Now a days volume of derivative market are much more than that of its cash segment. So you must know the technical details valuation and strategies with those plain vanilla derivatives.

In a complex situation you may derive you own strategy or combine different strategies.

Group III

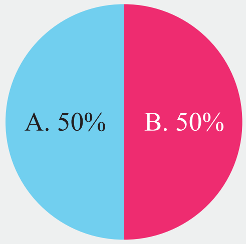
PAPER 15:
BUSINESS STRATEGY & STRATEGIC COST MANAGEMENT (BSCM)

CMA (Dr.) Subir Kr. Datta
Principal, Kshudiram Bose Central College, Kolkata

Your Examination Quick Takes;

Your Syllabus for this paper is divided into following ways;

A. Related to the study of Business Strategy - 50%
B. Related to the study of Strategic Cost Management - 50%



Tips for the preparation of Section - A Business Strategy [50 Marks]

Please try to go through your Study Material very carefully. As you are in the advanced stage, all of you already know the system and practices that are required to be followed by the general students for passing an examination held by the institute. This portion mainly deals with development of strategy, study the position, select among the grand, strategies considered already, based on the objective of the enterprise and gradual combination and transformation of independent components of business organization into cohesive and synergistic entities.

You know, there are some text books that are available in the market. You should study the relevant textual portion from that book and try to solve the practicing problems / case studies that were set in different higher study examinations. The students are directed to go through the previous question banks of this subject and try to assess how they can secure good marks. This part is mainly based on theory but the division of marks in each question is too small (3 to 6 marks). So it is suggested that a detailed study is necessary for achieving sure success.

Here, we would like to discuss 'Strategic Integration' as guidance –

Strategic integration is a vital tool in the process of improving the performance of the organization as it facilitates the continuous alignment business strategies within the ever changing business environment. Every organization seeking systematic integration through business strategies, corporate strategic and functional strategies for the purpose of creating sustainable competiveness.

Vertical integration on the other hand is the process of integrating various steps related to production and / or distribution of a product or services by a single company in order to expand its market share.

Vertical Integration

Backward Forward

The next stage of study is diversification of product which is mainly necessary for improving sales volume. A company may choose diversification strategy for different reasons. Diversification strategy for different reason. Diversification strategy are of mainly two types -

i. Related Diversification and
ii. Unrelated Diversification.

There are some other forms of diversifications, which are also to be studied carefully. Your study materials p.p. 15.11 to 15.13 deals with these mater.

There is also scope for growth of a company through it's strategic decision, either by mergers or by acquisitions. There are three major types of mergers -

Mergers (Type)

Horizontal Vertical Conglomerate

Financial Managerial Concentric

Various procedures for evaluating the decision for mergers / acquisitions and its motives to be studied thoroughly.

Internal development / organic growth, its different methods, benefits and limitations also to be studied.

Specific importance should be given for strategic alliance. Various question may be set from this portion like – steps, reasons, benefits, types etc. All answer should be followed by some examples.

The difference between Joint Venture and Strategic Alliance should be studied. The reasons for termination of the two companies' Joint Venture and competitive advantages / disadvantages of strategic alliance, Competitive Dynamics should also be read very cautiously.

Always try to memories the main paints and form a good habit of complete your answer within the allotted time.

Tips for the preparation of Sanction B - Strategic Cost Management [50 marks]

This section is mainly problem oriented and has more possibilities of scoring high marks. Students are suggested to give more stress on solving the exercise problem sets in different text books. In your Study notes, besides theoretical discussions, a good number of solved problems are there. You can also go through these solutions for selecting the types of problems required to be solved. Here we have to solve three questions (20 + 15 + 15 marks) including a compulsory question (20 marks) . Since very small divisions of part marking (ranging from 2 to 6 marks) is there , hence there is no scope of getting 'Zero' for the whole answer.

Suppose a question is set in your "Strategic Decision Making" part in this way -
'B Engineering' is operating at 70% capacity and presents the following information:-

BEP	Rs. 200 crores
P/v Ratio	40%
Margin of safety	Rs. 50 crores

The management of the company has decided to increase production to 95% capacity level with the following changes –

I. The selling price will be reduced by 8%
ii. The variable cost will be reduced by 5% on sales
iii. The fixed cost will increase by Rs.20 crores, including depreciation on additions, but excluding interest on additional capital.
iv. Additional capital of Rs. 50 crores will be needed for capital expenditure and working capital.

You are required to –
a) Indicate the sales that will be needed to earn Rs. 10 crore over and above the present profit and to meet 20 % interest on the additional capital.
b) What will be the revised :-
I) B.E.P.? II) P/V ratio III) Margin of Safety?

For solving the problem some working out is necessary without which we are unable to reach the solution of the problem.
We know that –

Total sales = B.E. sales + M/S Sales
= Rs. 200 crore + Rs. 50 crores = Rs. 250 crores
P/V Ratio is 40%, Hence, V. Cost = 100% - 40% = 60% of sales.
Or, V. Cost = 250 x 60/100 = 150 crores.
Again we know, F. Cost = BEP x P/V Ratio.
= Rs. 200 crores x 40% = Rs. 80 crores
Total cost Rs. 150 crores + Rs. 80 crore = Rs. 230 crores.
Profit = Rs. 250 Crores – Rs. 230 Crores = Rs. 20 Crores.

Here, the different uses of formulae is vital, as there is no direct cost figures. Now we would like to study the revised positions –

To know about the revised sales position , first we have to find out revised Fixed Cost –
We know,

Present Fixed Cost		80 crores
Increased ,, ,,		20 ,,
Add-Additional Interest cost for additional		10 ,,
Capital (20 % of Rs. 50 crore)		
Revised Fixed Cost	Rs. 110 crore	

Now, we have to find out the new P/V Ratio and for that we should proceed in this way –

Assuming that present sales = Rs. 100/-
Revised selling price (8% less) e.i. Rs. 92/-
New variable cost reduced from 60% to 55% -
Rs.92 x 55 % = Rs. 50.60
Therefore New contribution Rs. 92.00 – Rs.50.60 = Rs.41.40 or 41.40 %

So Revised P/V Ratio = 41.4/ 92 x 100 = 45%

New revised required profit = Rs. 20 + Rs. 10 = Rs. 30 crore
Required contribution = Rs. 110 crore + Rs. 30 crore = Rs. 140 crore
Required Sales = Rs. 140 ÷ 45% = Rs. 311.11 crore
Therefore Revised BEP = Rs. 110 crore ÷45% = Rs. 244.44 crore
Hence, Revised Margin of Safety = Revised Sales - Revised BEP sales
= Rs. 311.11 crore – Rs. 244.44crore
= Rs. 66.67 crore

The Revised sales figure is Rs. 311.11 crore
Revised Break-even point Rs. 244.44 crore
Revised P/V Ratio = 45%
Revised M/S = Rs. 66.67 crore

To some up first, go through all the chapters giving attention to the theoretical part , then try to solve the problems in the above mentioned way. Your success mainly depends on your devotion and clear conception about the chapters you have read.

Group III

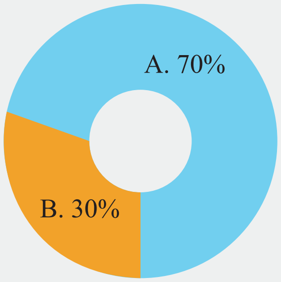
PAPER 16:
TAX MANAGEMENT & PRACTICE (TMP)

CMA Arnab Chakraborty
Sr. Director,
Directorate of Studies,
He can be reached at:
studies.director@icmai.in

Your Examination Quick Takes;

Your Syllabus for this paper is divided into following ways;

A. Tax Management - 70%
B. Tax Practice and Procedures - 30%



Tips on How to perform better in part A, in your examination.

It's very important for us to understand two basic principal of keeping track on a business's income and expenses: cash method and accrual method (sometimes called cash basis and accrual basis). In a nutshell, these methods differ only in the timing of when sales and purchases are credited or debited to your accounts. If you use the cash method, income is counted when cash (or a cheque) is actually received, and expenses are counted when actually paid. But under the more common accrual method, transactions are counted when they happen, regardless of when the money is actually received or paid.

So with the accrual method, income is counted when the sale occurs, and expenses are counted when you receive goods or services. You don't have to wait until you see the money or until you actually pay money out of your checking account. With some transactions, it's not so easy to know when the sale or purchase has occurred. The key date here is the job completion date. Not until you finish a service or deliver all the goods a contract calls for can do you put the income down in your books. If a job is mostly completed but will take another 30 days to add the finishing touches, technically it doesn't go full on your books until the 30 days pass.

Say you purchase a new laser printer on credit in May and pay Rs. 12,000 for it in July, two months later. Using the cash method of accounting, you would record Rs. 12,000 payment for the month of July, the month when the money is actually paid. But under the accrual method, the Rs. 12,000 payment would be recorded in May, when you take the laser printer and become obligated to pay for it. Similarly, if your computer installation business finishes a job on November 20,2015 and doesn't get paid until April 10, 2016, you'd record the payment in April 2016 if you use the cash method. Under the accrual method, the income would be recorded in your books in November 2015.

The most significant way your business is affected by the accounting method you choose involves the tax year in which income and particular expense items will be counted. For instance, if you incur expenses in the 2015-16 tax year but don't pay them until the 31st March 2016 tax year, you won't be able to claim them in 2015-16 if you use the cash method. But as you should now understand, you would be able to claim them if you use the accrual method, since the very essence of that system is to record transactions when they occur, not when money actually changes hands.

Section 43B: According, to Section 43B of the Income tax Act, there are certain payments should be allowed to be claimed as an expense only in the year in which it has been paid and not in the year in which liability to pay such sum was incurred.

- Any tax, duty, cess or fees, by whatever name called, payable under any law for the time being in force, or
- employer's contribution to Provident fund, gratuity fund or any other fund for the welfare of the employee, or
- any bonus or commission payable to the employees, or
- interest payable on any loan or borrowing from any Public financial institution (i.e ICICI, IFCI, IDBI, LIC and UTI) or a State Financial Corporation or State Industrial Investment Corporation, or
- Interest payable on any Loan OR Advance from a scheduled bank, {"Schedule Bank" includes a Co-operative Bank.}
- Leave encashment payable to employees.
- With effect from the assessment year 2017-18, any sum payable to the Indian Railways for the use of railway assets.

Shall be allowed as deduction only in the previous year in which such sum is actually paid by him. This is irrespective of the previous year in which the liability to pay such sum was incurred by the assessee according to method of accounting employed by him i.e Cash basis or mercantile basis of accounting.

Key notes to remember:

- The provision of section 43B shall not apply in relation to any sum which is actually paid by the assessee on or before the due date applicable in his case for furnishing the return of income under section 139(1) in respect of the previous year in which liability to pay such was incurred by the assessee.
- Where interest payable under clause (d) or (e) is converted into **Loan or advance** or borrowing, then **it shall not be deemed to have been actually paid**.
- If the interest payable is converted in Funded Interest Term Loan (FITL), then deduction shall be allowed for FITL to the extent it is paid.
- Bank Guarantee does not amount to actual payments.
- Bottling fees of Liquor is not covered by section 43B. Electricity charges payable to State Government is not covered by section 43B since it is not "tax, Duty, cess or fees".
- **As per Rabo India Finance Ltd v. CIT [2011]** - HSBC and ICICI Bank are not State Financial Corporation or State Industrial Investment Corporation for the purpose of disallowance under Section 43B.
- It is stated that, the evidence of such payment is submitted along with the Return of Income. However no

annexure is possible with the new Income Tax Return Forms i.e. ITR-1 to ITR-8. Such evidence of payment should be kept by the assessee himself and can be produced as when required by the assessing officer.

- Presently, payment of interest on any Loan/ Borrowings from a Public Financial Institution, State Financial Corporation or State Industrial Development Corporation and interest is actually paid. Explanation 3C and 3D have been inserted by the Finance Act,2006 to Section 43B to provide that where such interest is converted into a loan, borrowing or advance and is not paid, interest so converted will not be treated as having actually paid, and accordingly, will not be allowed as a deduction from business income.
- It may be noted that the provision of section 43B are applicable only in respect of employer's contribution to provident fund, ESI, etc. Employee's contribution to provident fund, ESI, etc shall be allowed as deduction only when the payment of the same is made on or before the due date mentioned under the respective welfare Act's. If the employee's contribution to such fund is paid after the due date under the respective Acts, the deduction for such payment made by the employers shall not be allowed under section 36(1)(va).
- Conversion of outstanding unpaid interest into loan is not taken as payment of interest. The converted interest, by whatever name called, in the wake of its conversion into loan or borrowing or advance, will be eligible for deduction in the computation of income of the previous year in which the converted interest is actually paid. In other word, nomenclature of the sum of converted interest will make no difference as the sum of converted interest whenever is actually paid will not represent repayment of the principal-Circular No. 7/2006, dated 17Th July 2006.
- If under the Sales tax legislation, Sales tax so deferred is treated as actually paid then statutory liability shall be treated to have been discharged for the purpose of Section 43B-Circular No. 496, Dated 25th September 1987.
- If commission is payable to an agent, then section 43B is not applicable.
- "Any sum payable" means a sum for which the assessee incurred liability in the previous year even though such sum might not have been payable within that year under the relevant law. For eg Vat for the month of March is payable by 14th April. Since this liability is incurred in month of march only, this amount is covered under this section and will be disallowed if not paid till the due date of furnishing return.

Practical Example

The profit and Loss Account of a trader included the following payments during the financial year 2015-16.

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Opening Stock	1,50,000	Sales	22,00,00
Purchase	10,78,000	Closing Stock	1,75,000
Wages	5,32,000		
Gross Profit	6,15,000		
Total	23,75,000	Total	23,75,000
Printing, stationery and postage	17500	Gross Profit	6,15,000
Commission - Agent	12,000		
Salary to Employees	2,22,000		
Bonus to staff	28,000		
Insurance - GIC	42,000		
Sales tax	6,000		
Excise duty	8,600		
Telephone Bill - BSNL	5,800		
Employer's contribution to RPF	24,000		
Professional fees - to Cma	16,000		

Rent for Using of railway assets	22,000		
Transport costs: Air India	54,000		
Net Profit	1,57,100		
Total	6,15,000	Total	6,15,000

On scrutiny it is found that the due date of filing the return of income was 31. 7.2016, but:

(a) Bonus to staff was paid: Rs. 14,000 on 9.7.2016 and another Rs. 14,000 was paid 15.11.2016
(b) Sales tax Rs. 4,000 was paid on 16.7. 2016, and balance Rs. 2,000 was paid on 10.10. 2016
(c) Excise duty Rs. 4,600 was paid 10.7.2016, and balance Rs. 4,000 was paid on 9.9.2016.
(d) Employer's contribution to RPF was paid on 31.7.2016.
(e) Payment made to Air India – 12000 on 31.7.2016 and the balance payment made on 5.8.2016 and Paid to Railway of Rs. 18000/- on 08.04.2016 and outstanding paid on 2.9.2016
(f) Insurance premium of Rs 30,000 on 31.3.2016. and the balance payment made to GIC on November 15th 2016.
(g) Full payment made against the Telephone Bill (BSNL) on 8.10.2016
(h) Commission to the Agent of Rs. 9500/-, paid on 16.3.2016 and the balance paid on 8.10.2016

In which previous year can the above payments be claimed as deduction?

Solution:
Computation of deduction for specified expenses

Expenses	**Date of payment**	**Amount of payment**	**Previous year for deduction**
Bonus to staff	9.7. 2016 15.11. 2016	14,000 14,000	2015-16 2016-17
Sales tax	16.7. 2016 10.10. 2016	4,000 2,000	2015-16 2016-17
Excise duty	10.7. 2016 9.9. 2016	4,600 4,000	2015-16 2016-17
Employers contribution to RPF	31.7.2016	24,000	2015-16
Transport costs: Air India – Air Fare	31.7.2016 5.8.2016	12,000 42,000	2015-16 2015-16
Rent for Using of railway assets	8.4.2016 2.9.2016	18,000 4,000	2015-16 2015-16
Insurance - GIC	31.3.2016 15.11.2016	30,000 12,000	2015-16 2015-16
Telephone Bill - BSNL	08.10.2016	5,800	2015-16
Commission - Agent	16.03.2016 8.10.2016	9,500 2,500	2015-16 2015-16

Judicial precedent:

1. Royalty payable to the Government in respect of mineral rights is a 'tax' within meaning of section 43B-Grasim Industries Ltd v. CIT [1999] 64 TTJ (Mum.) 357.
2. Interest payable to the Government of Haryana on arrears of purchase tax is not "tax" within the meaning of section 43B— CIT v. Padmavati Raje Cotton Mills Ltd [1999] 239 ITR 355 (Cal.).
3. X Ltd. purchases machinery from A Ltd. and draws a promissory note in favour of A Ltd. duly accepted by its bankers. A Ltd. discounts the promissory notes from Punjab National Bank and Punjab National Bank rediscounts the promissory note from IDBI. X Ltd. is required to make payment to IDBI through its banker with interest. Interest payable to IDBI is not covered by section 43B, as there is no direct financial arrangement with IDBI.
4. A 'kist' is neither duty nor tax and, therefore, would not come within the purview of section 43B— CIT v. Shiva & Co. [2001] 119 Taxman 597 (Kar).
5. Audit fee payable to Government, by a co-operative society, is not covered by section 43B as it is not tax or fee—CIT v. Shree Warma Sahakari Sakhar Karkhana [2001] 119 Taxman 422 (Bom.).
6. Interest on municipal tax is not covered by section 43B as it is not an adjunct to municipal tax— CIT v. Orient Beverages Ltd [2001] 117 Taxman 106 (Cal.).
7. Electricity tax collected by an Electricity Board on behalf of the Government is not subj ect to the provisions of section 43B— Kerala State Electricity Board v. CIT[2010] 329 ITR 91 (Ken).
8. Mandi tax is not a tax as it is paid by a trader because some services are provided by the mandi— CIT v. Mohansingh & Sons [1995] 216 ITR 432 (MP).
9. Electricity charges are neither tax, nor duty nor cess and, hence, they cannot be tagged in the provisions of section 43B.
10. Furnishing bank guarantee cannot be equated with actual payment. Actual payment requires that money must flow from the assessee to the public exchequer as such as specified in section 43—CIT v. McDowell & Co. Ltd [2009] 180 Taxman 514 (SC).
11. Bottling fee payable under excise law for acquiring a right of bottling of IMFL does not fall within purview of section 43B— CIT v. McDowell & Co. Ltd [2009] 180 Taxman 514 (SC).
12. SEBI turnover fees is subject to section 43B—I. Kay Holding Co. (P) Ltd v. CIT [2009] 32 SOT 586 (Delhi).
13. Advance custom duty is allowable as an expenditure under section 43B— CIT v. Samtel Color Ltd [2O09] 184 Taxman 120 (Delhi).
14. Duty paid on sale of electricity is covered by section 43B — CIT v. Gujarat Urja Vikas Nigam Ltd. [2010] 322 ITR 539 (Guj.).
15. Payment to gratuity fund operated by LIC is covered by section 43B — CIT v. Popular Vehicles & Services Ltd. [2010] 189 Taxman 14 (Ker.).
16. A car manufacturer deposits certain amount on regular basis in Excise Personal Ledger Account in terms of rule 173G of Central Excise Rules, 1944, in order to clear goods. The amount so deposited cannot be disallowed under section 43B – CIT v. Maruti Suzuki India Ltd. [2013] 212 Taxman 603 (Delhi).
17. Service tax is not covered within the purview of section 43B – CIT v. Real Image Media Technologies (P.; Ltd. [2008] 114 ITD 573 (Chennai). However, a contrary ruling is given by the Hyderabad Bench of the Tribunal in the case of Bartronics India Ltd v. C/r[2012] 52 SOT 188.
18. "Actual payment" means "actual payment" and not actual receipt and delivery of currency by two transacting parties when they are creditor and debtor both. When interest is paid out of fund lying in any another account of the assessee with such creditor, then that is "actual payment"—CIT v. Shakti Spring Industries (P.) Ltd. [2013] 219 Taxman 124 (Jharkhand).
19. In Hero Moto Corp Ltd. v. CIT [2013] 60 SOT 25 (Delhi), the assessee-company entered into a master policy with LIC, whereby assessee paid annual premium to LIC, which in turn, paid leave salary directly to employees. The Tribunal held that there was no direct payment of leave encashment by the assessee, same could not be disallowed under section 43B(f), and was to be allowed as business expenditure under section 37(1).
20. Section 43B is not applicable to interest on Government loans and for dearness allowance arrears of employees— CIT v. U.P. Rajya Vidyut Utpadan Nigam Ltd [2013] 218 Taxman 153 (All.).
21. Vend fee collected by a State Government from a sugar manufacturer for giving special benefit to repair or replace old machinery is a "fee" and attracts disallowance provisions of section 43B—CIT v. Travancore Sugars & Chemicals Ltd. [2015] 58 taxmann.com 86 (SC).

Group IV

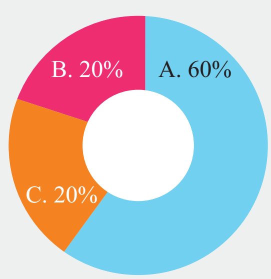
PAPER 17: STRATEGIC PERFORMANCE MANAGEMENT (SPM)

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

Your Examination Quick Takes;

Your Syllabus for this paper is divided into following ways;

A. Performance Management - 60%
B. IT & Econometric tool in Performance Management - 20%
C. Enterprise Risk Management - 20%



A distinct feature of CMA examinations is that student skills are tested with reference to the field application of the professional acumen. In order to sustain such of these examinations, conceptual clarity of the relevant topics is a prerequisite. As the December Session of the examinations is knocking on the door, here are a few quick takes for the benefit of students, picked up from the study material of Strategic Performance Management.

Business

Business principally comprises of an all profit seeking activities of the organization which provide goods and services that are necessary to economic system. It is the major economic pulse of a nation, striving to increase society's standard of living. Finally, profits are a primary mechanism for motivating these activities. The main characteristics of a business may be summarized as under.

1. Entrepreneurship
2. Economic Activities
3. Exchange of Goods and Services
4. Profit Motive
5. Risk and Uncertainty
6. Continuity of Transactions
7. Creation of Utility
8. Organization
9. Financing
10. Consumer Satisfaction
11. Satisfying Social Needs

SWOT Analysis

SWOT Analysis looks at the strengths, weaknesses, opportunities and threats that are relevant to an organization.

Strengths: Internal attributes that are helpful to the organization

Weaknesses: Internal attributes that are harmful to the organization

Opportunities: External factors that that are helpful to the organization

Threats: External factors that are harmful to the organization

The aim of any SWOT analysis is to identify the key internal and external factors that are important to achieving the objective. The internal factors may include all of the 4Ps; as well as personnel, finance, manufacturing capabilities, and so on. The external factors may include macro economic matters, technological changes, legislation, and socio-cultural changes, as well as changes in the marketplace or competitive position. By specifying clear objectives and identifying internal and external factors that will remain helpful or not, a short and simple SWOT analysis is a useful resource which may be incorporated into an organization's strategic planning model.

PESTLE Analysis

PESTLE is a mnemonic which in its expanded form denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal and E for Environmental. It gives a bird's eye view of the whole environment from different angles that one wants to check and track while contemplating on a certain idea/plan.

1. Political: These factors determine the extent to which a government may influence the economy or a certain industry. Political factors include tax policies, Fiscal policy, trade tariffs, etc. that a government may levy around the fiscal year and which may affect the business environment.

2. Economic: These factors are determinants of an economy's performance that directly impacts a company and have resonating long term effects. Economic factors include inflation rate, interest rates, foreign exchange rates, economic growth patterns, etc.

3. Social: These factors scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics, population analytics, etc.

4. Technological: These factors pertain to innovations in technology that may impact the operations of the industry and the market favorably or unfavorably. This refers to automation, research and development and the amount of technological awareness that a market possesses.

5. Legal: There are certain laws that affect the business environment in a certain country while there are certain policies that companies maintain for themselves. Legal analysis takes into account both of these angles and then charts out the strategies in the light of these legislations. Examples may be of consumer laws, safety standards, labor laws, etc.

6. Environmental: These factors include all those that influence or are determined by the surrounding environment. Factors of a business environmental analysis include but are not limited to climate, weather, geographical location, global changes in climate, environmental offsets, etc.

Five Force Model

Michael E. Porter, professor of the Harvard School of Business Administration has developed a framework, which is known as Five Forces Model. The model helps the managers to analysis the competitive posture of an organization. This model focuses on the five forces which create competition within an industry.

The Five forces are:

- Risk of new entry by potential competitors
- Risk of entry by potential customers
- The degree of rivalry among established companies within an industry

- The bargaining power of suppliers
- The closeness of substitutes to the industry's products

Porter argues that a stronger competitive force limits the ability of an organization to raise prices and earn higher profits. Within Porter's framework, a strong competitive force is regarded as a threat whereas a weak competitive force is viewed as an opportunity.

Supply Chain Management (SCM)

Supply Chain Management encompasses the planning and management of all activities involved in sourcing, procurement, conversion and logistics management. It also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, Supply Chain Management integrates supply and demand management within and across the companies.

There are five basic components of Supply Chain Management.

1. Plan: Plan is the strategic portion of SCM. You need a strategy for managing all the resources that go towards meeting the customers' demand for your products and services.

2. Source: Choose the suppliers that will deliver the goods and services you need to create your product. Develop a set of pricing, delivery and payment processes with suppliers and create matrices for monitoring and improving the relationships.

3. Make: 'Make' is the manufacturing step. Schedule the activities necessary for production, testing, packaging and preparation for delivery.

4. Deliver: Deliver is the part that many insiders refer to as logistics. Coordinate the receipt of orders from customers, develop a network of warehouses, pickup carriers to get products to customers and set up an invoicing system to receive payments.

5. Return: Return is the problem part of the supply chain. Create a network for receiving defective and excess products back from customers and supporting customers who have problems with delivered products.

Case Study

Supply Chain Management has an important role to play in moving goods more quickly to their destination. Consultant R. Michael Donovan illustrates the point with the tale of a client that manufactures a made-to-order machine part. Average order-to-delivery time varied between six and nine weeks. As a result, the manufacturer was losing business to "replicators" that could produce low-quality "knockoff" versions in just three weeks.

Donovan and his colleagues analyzed the manufacturer's entire supply chain, from order entry and raw-materials supply all the way to final delivery. The consultants were able to cut waste out of physical processes, as also found ways to speed up the flow of information and to improve the accuracy of production orders. As a result, materials flow is closely correlated with information flow, and lead times have been cut from an average of six to nine weeks down to fewer than three weeks.

The payoff has been enormous. Instead of steadily losing market share to the replicators, the manufacturer has doubled sales volumes. It has reaped an added benefit as well: Because quality remains very high, the manufacturer has been able to charge more for its products, generating even greater profits.

Bench Marking

Benchmarking is the continuous process of measuring products, services or activities against the best levels of performance that may be found either inside or outside the organization. It is a process of comparing a firm's activities with best practices. The process involves establishment of benchmarks (targets or comparators), through the use of which the levels of performance of the organization is sought to be improved. Benchmarking is a tool for continuous improvement.

Types of Benchmarking

1. Product Benchmarking (Reverse Engineering): Product Benchmarking is an age old practice of product oriented reverse engineering. Every organization buys its rival's products and tears them down to find out the features and performances etc. as compared to its products. This could be the starting point for improvement. For example, when Ford Motor Company redesigned the Tauras in 1992, it benchmarked 209 features of its car against 7 competitors. The company then worked to match and excel the standards set by any of its rivals in each of these features and came out successfully.

2. Competitive Benchmarking: Competitive Benchmarking is "A Measure of organizational performance compared against competing organization; studies the target specific product designs, process capabilities or administrative methods used by a company's direct competitors". Competitive Benchmarking moves beyond product oriented comparisons to include comparisons of processes with those of the competitors. In this benchmarking, the processes studied may include marketing, finance, human resource, R & D etc.

3. Process Benchmarking: Process Benchmarking is "The activity of measuring discrete performance and functionality against organizations through performance in excellent analogous business processes". To gain leadership position it is essential to look at a paradigm-shifting jump to a new way of managing a process; for this you may have to go beyond your industry and look at the "best-inbreed" to bring about a fundamental change and not just an incremental improvement. When Airlines wanted to improve their turnaround times they compared the performance with the Pit Crew of Formula I races since it is well known that they are best in class in that operation.

4. Functional Benchmarking: "An application of process benchmarking that compares a particular business function at two or more organizations.

5. Generic Benchmarking: An application of functional process benchmarking that compares a particular business function at two or more organizations, selected without regard to their industry.

6. Internal Benchmarking: "An application of process benchmarking performed, within an organization by comparing the performance of similar business units or business processes".

7. Strategic Benchmarking: "The application of process benchmarking at the level of business strategy; a systematic process for evolving alternatives, implementing strategies, and improving performance by understanding and adapting successful strategy from external partners who participated in an on-going business alliance".

8. Global Benchmarking: This is defined as "the extension of strategic benchmarking to include benchmarking partners on a global scale". A classic example is that of Ford Company of US, which benchmarked its accounts payable function with that of Mazda in Japan and found to its astonishment that the entire function was managed by 5 persons as against 500 in Ford.

Important KPIs

- **Stock turnover – days:** Reflects the number of days that it takes to sell inventory. A lower ratio means quicker stock movement.
- **Debtors turnover – days:** Reflects average length of time from sale to cash collection. A lower ratio is indicative of quicker receipts.
- **Current ratio:** Indicates the extent to which current assets cover current liabilities. It is a measure of the ability to meet short-term obligations. The rough rule of thumb is a ratio of 2:1.
- **Debt/equity:** This is a measure of the extent to which a business relies on external borrowings to fund its on-going operations. A higher ratio reflects heavy debt financing.
- **Interest coverage:** Provides a measure of the ability of the business to meet its interest commitments out of profits and is linked to the debt/equity ratio. The rough rule of thumb used by banks is a ratio of 3:1.
- **Return on investment:** Represents the after-tax return that owners are receiving on their investment and should be compared with alternative forms of investment.
- **Gross profit margin:** An indication of the profitability of the business and reflects control over cost of sales and pricing policies. This ratio should be compared with prior periods and also with any available industry data.
- **Breakeven sales:** Reflects the sales that need to be generated in order to cover all the expenses. In other words, this is the level of activity at which neither a profit nor loss is incurred.

Non Financial Performance Measures (NFPIs)

There are a number of areas that are particularly important for ensuring the success of a business and wherein the use of NFPIs plays a key role. Here are a few examples.

1. Management of Human Resources: Traditionally the main performance measure for staff was cost (a FPI). However, businesses have started to view staff as a major asset and recognize that it is important to attract, motivate and retain highly qualified and experienced staff.

The NPFIs that are used for this purpose include:

- Staff Turnover
- Absentee Rates
- % of Job Offers Accepted
- Results of Job Satisfaction Surveys
- Competence Surveys

2. Product and service quality: Product and service quality are usually based on several critical dimensions that should be identified and measured over time. Performance on all these dimensions needs to be combined to give a complete picture.

For example:

- An automobile firm can have measures of defects, ability to perform to specifications, durability and ability to repair.
- A bank might be concerned with waiting time, accuracy of transactions, and making the customer experience friendly and positive.
- A computer manufacturer can examine relative performance specifications, and product reliability as reflected by repair data.

3. Brand awareness and company profile: Developing and maintaining a brand and/or a company profile can be expensive. However, it can also enhance performance. The value of a brand/company profile is based on the extent to which it has:

- High Loyalty
- Name Awareness
- Perceived Quality
- Other Attributes such as Patents or Trademarks.

Group IV

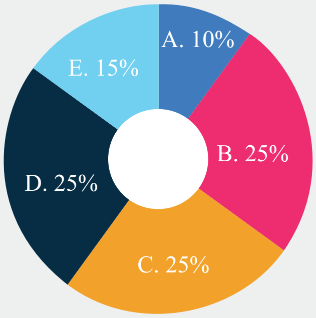
PAPER 18: CORPORATE FINANCIAL REPORTING (CFR)

Dr. Uttam Datta
Prof., Department of Commerce & Management
West Bengal State University
Barasat, Kolkata
He can be reached at:
uttam.dutta@yahoo.co.in

Your Examination Quick Takes;

Your Syllabus for this paper is divided into following ways;

A Generally Accepted Accounting Principles - 10%
B Business Combinations – Accounting & Reporting - 25%
C Group Financial Statements - 25%
D Developments in Financial Reporting - 25%
E Government Accounting in India - 15%



Corporate Financial Reporting aims to present comprehensive and integrated framework to guide the students acquire sufficient knowledge and competence to understand different accounting theories, accounting environment, financial statement information, financial reporting issues etc. This will, in turn, enable our students to evaluate recent practice in financial accounting and reporting. It also aims to develop the student ability in understanding the different concepts and their applications. Under Corporate Financial Reporting, two important units/chapters are:

⦿ Accenting for Business Combinations (Study Note 2) and
⦿ Sustainability Reporting (Study Note 4). We will confine our guidance here two units only:

Accounting for Business Combinations:

Today under global business environment companies may have to grow to survive and one of the best ways to grow is by merging with another company or acquiring other companies. This is commonly known as business combination. In developed countries, business combinations are a regular feature. In USA, Japan and Europe hundreds of mergers and acquisitions take place every year. In India too, mangers and acquisitions have become a corporate game today. Students are advised to read the concepts, theories and techniques of business combinations first and then apply the knowledge and techniques in practice. They should give more emphasis on accounting for mergers and acquisitions along with Accounting Standard 14 (AS-14). This unit/chapter also relates to 'surrender of shares' and 'Buy back of shares'. Students need to learn the latest rules and regulations relating to these two important issues and practice the practical problems especially on buy back of shares. They should work out different illustrations relating to business combinations. After thorough reading of the 'Study Material" of the Institute, the students are advised to consult any text book for further reading. They should practice this unit systematically and regularly to ensure their success properly.

Sustainability Reporting:

Corporate sustainability reporting has now become an integral part of a company's core business strategy in the industrialized countries of the world and this is mainly due to social pressure from the varied corporate stakeholders. This pressure demands that corporate must conduct their business activities in a manner that is fully transparent and social-cum-environmental friendly. Corporate sustainability reporting is very much interrelated with Triple Bottom Line Reporting. The Triple Bottom Line (TBL) is made up of "social, economic and environmental" the people, profit and planet phrase was coined for shell for sustainability, influenced by 20th century urbanist patrick Geddes's notion of folk, work and place. People, planet and Profit describe the triple bottom line and the goal of sustainability. In case of Triple Bottom Line Reporting, GRI guidelines have played a very important role in promoting the worldwide adoption and acceptance of TBL reporting.

Students are advised to read the recent development in reporting system thoroughly. They should know GRI guidelines and more particularly the parameters which are being used in GRI guidelines. Study material is adequate enough to equip our students. They should read this unit two/three times and I am confident that they will get an idea regarding corporate sustainability reporting. Another recent development in sustainability reporting is Integrated Reporting system. Students are advised to read the background paper released by the International Integrated Reporting Council.

Group IV

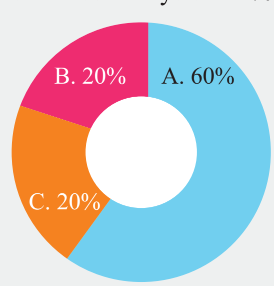
PAPER 19: COST AND MANAGEMENT AUDIT (CMAD)

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

Your Examination Quick Takes;

Your Syllabus for this paper is divided into following ways;

A. Cost and Management Audit - 60%
B. Internal Audit and Operational Audit - 20%
C. Case Study on Performance Analysis - 20%



Part A of your Study notes contains;

Topic: Practical approach in understanding the basic Principles for Maintenance of Cost Accounting Records.

Understanding of maintenance of Cost Records and Audit thereof is the core competency of a Cost and Management Accountant (CMA). Therefore it is highly imperative and pertinent for a student appearing for Group-4 of the Final Course to have proper understanding of this subject for passing the exam as well as for successful professional career.

After passing, when we choose our career either in service or in practice being a CMA, the society and the industry look at us as an expert in the subject of cost management and therefore our responsibility increases many fold in delivering the result to their satisfaction.

As a sequel to this, it is highly desirable that we have proper understanding of the guidelines, principles and elements of cost which are the basis for maintenance of Cost Records. Like Profit and Loss account and Balance Sheet which are the final outcome of the financial accounting, we have Cost Sheet of each product and service as the final outcome of the maintenance of cost records. The cost sheet indicates the true and fair view of cost of production of each product, service and activity and costing profit indicates the real profit of the company from its business activity and its efficiency. The correct cost of any product or service helps management in taking various management decision in the areas of cost management, business expansion and to improve the bottom line of the company particularly in this era of competition and globalization.

The Cost records are to be maintained as per the Notifications issued by Ministry of Corporate Affairs, Gove. of India. Earlier there were separate Rules for Maintenance of Cost records and audit of cost records in the name and style of Cost Accounting Records Rule, 2011 and Cost Audit Reports Rule, 2011 respectively. However after coming into force the Companies Act, 2013, The GOI, Ministry of Corporate Affairs has issued new notification, under Sec. 148, of the Companies Act, 2013, namely the Companies (Cost records and Audit) Rules, 2014 for maintenance of cost records and audit thereof.

For proper understanding of various element of cost and its accounting, our Institute has published the Generally accepted cost accounting principles (GACAP), Cost accounting standards (CAS) and Guidance note on Cost accounting standards. Further the Companies (Cost records and Audit) Rules, 2014also contain the Form CRA – 1, which define and explain the various elements of cost and its accounting as well as maintenance of certain statistical records which helps in preparation of Cost sheet and arriving at the true and fair view of cost of production of any product or service.

At first instance when one hear about GACAP, CAS, Guidance note and CRA – 1 etc. one get a little bit confused and develop the feeling that it is a very vast area to read. But in reality it is otherwise. All the above explain the same thing, however in different manner. If one understand the basic concept/principle of element of cost it will be easier for him/her to understand all the above.

The basic elements of cost for which records are to be maintained are:

a. Material costs
b. Employee cost
c. Utilities
d. Direct Expenses
e. Repairs and Maintenance
f. Depreciation
g. Overheads (Indirect expenses)
h. Administrative Overheads – to be classified into
i. i. Relating to Production and
ii. Others
j. Transportation cost
k. Royalty and Technical knowhow
l. Research and Development
m. Quality control expenses
n. Pollution control expenses
o. Service department expenses
p. Packing expenses - to be classified into
q. i. Primary packing and
ii. Secondary packing
iii. Interest and Financial charges

It may be noted that Administrative Overheads – Relating to Production, and Primary packing cost forms part of cost of production, whereas Administrative Overheads – Others, Secondary Packing and Interest and Financial charges, forms part of cost of Sales.

Besides above, arriving at other figures and treatment of certain cost and income is also essential to calculate the correct costing profit.

a. Sales of product/service
b. Sale of By-product / Waste
c. Sale of Scrap – to be classified into
i. Process scrap and
ii. Other scrap
d. Other income - to be classified into
i. related to business activity.
ii. related to investments and other activities

While the Sale of By-product / Waste, Sale of Process scrap and Other income related to business activity are to be adjusted with cost of production, the Sale of Other scrap and Other income related to investments and other activities are to be shown in the Reconciliation statement i.e do not form part of cost sheet.

Further it may also be noted that the following expenses / income also do not form part of cost sheet and to be shown in the reconciliation statement.

a. Forex gain / loss
b. Any demurrage or penalty charges
c. Any abnormal cost
d. Prior period cost or income
e. Loss due to strike / lockout or due to natural calamity etc.

Finance cost incurred in connection with the acquisition of any element of cost will not for part of that element rather it is to be grouped as Interest and Financial charges. Similarly any subsidy or grant or incentive and any such payment received or receivable with respect to any element of cost shall be reduced from that cost.

In other words the entire issues can be summarized as under, to maintain the cost records, prepare true and fair cost sheet and arrive at correct costing profit.

1. Only current year income and its corresponding expenses are to be considered and
2. Only the Income and expenses relating to business activities are to be considered.

Group IV

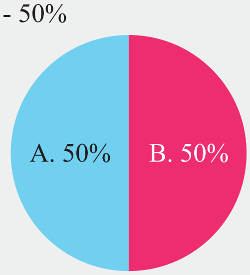
PAPER 20:
FINANCIAL ANALYSIS AND BUSINESS VALUATION (FABV)

CMA (Dr.) Gautam Mitra
Professor,
Department of Business Administration,
The University of Burdwan
He can be reached at:
gautammitra6@gmai.com

Your Examination Quick Takes;

Your Syllabus for this paper is divided into following ways;

A. Financial Analysis - 50%
B. Business Valuation - 50%



So, this paper has two parts:

Section A which refers to Financial Analysis
Section B refers to Business Valuation.

For smooth understanding of this paper, you must know:

- Corporate Financial Reporting practices and
- Basics of business valuation.

Both the issues are again deeply based on fundamental accounting theories and core principles of Financial Management, unless basics are right applications must fail.

Now let us start with Part A; 'Financial Analysis'

Part A of this paper concentrates on Financial analysis. Basically it refers to Financial Statement analysis.

Corporate Financial Reporting (CFR) has 4 parts:

- Cash flow statement
- Profit & loss Account or revenue account
- Balance sheet or statement of assets and liabilities
- Notes to accounts.

It is presumed that you already know the contents of all those 4 parts and how to prepare them. Now we come to its analysis part.

Q. Why do we analysis CFR?

CFR has many stakeholders. Management may be interested to know:

1. whether business generate adequate surplus to service its debts instruments,
2. whether new issue of equity share may be existing debt equity ratio.

Equity share holders are interested to know whether business is having sufficient liquid cash to pay their regular dividend. Government may be interested to know whether a company is facing financial distress on the other hand the share holder's are interested to know about the future financial health of the company.

Ratio is a pure number just a single digit tells a lot. Just think what a miracle may happen if you relate different financial ratio of analysis a time service or panel data. For example, instead of closing share prices, what a fantastic forecasting can be done if forecasting is based on panel data. Just give last 5 terms question papers of professional bodies home and abroad to have a confident start up.

Coming next to Part B of your study note– 'Business Valuation'

The style of the past questions are mostly numeric problem solving oriented, in a very few cases descriptive questions have been set. Therefore you must practice huge sums apart from knowing the basic of Accounting and Financial Management and Valuation in particular Aswath Damodaran's 1st book "Investment Valuation" is a must read.

After building up you core conception of valuation as well as business valuation, valuation methods and models, and its application areas, concentrate on

- Valuation of share
- Valuation of bonds
- Valuation of real estate
- Valuation of future options
- Valuation of Intangibles like goodwill, brand. Patents. Copy right etc
- Valuation of Human Assets
- Valuation with reference of Mergers and Acquisition

Always remember that this subject is quite interesting as number of values, is the possibility of different values.

Therefore picking up the right model and right data is even challenging. Your job is to try a complex model for an appropriate model than may take you as near as possible to fair value. This is a wide subject, approach from you care concepts of accounting and Finance. Your knowledge in statistics, IFRS and related areas are imperative.

Q. How to study Valuation Business?

Refer your study note 7

Here, you are prepare to understand valuation business. Before I advise how to study, let me give you two live examples.

Example 1: My father (86 yrs) has recently turns home after having pace maker consignment to complete heart block. He has been advised to take complete bed rest.

He needs a barber at his home every week to shave him as he cannot move to saloon, out of different bar bars who have been approached the first one who has agreed to do the job charged Rs. 60 per shave instantly but within few minutes the barber increased the rated to Rs. 80 per shave. Being disappointed another local barber was approach who did the shave and took just Rs. 20 but disappeared for ever. We are still looking for another barber to remain the regular job once a week for fair price!

Students, before you know valuation from Aswath Damodaran is it not the right approach to question;

- What is actually meant by valuation?
- How valuation is different from cost and price?

Say, you produce a wrist watch after incurring a total cost of Rs. 10,000 and sells it at Rs. 12,500 after making 25% profit on cost.

Then, question may arise;

- What is the value of the watch?
- What is the value when you do not find a single watch at the examination hall as doctor waits for and exact time to start a surgery? Again,
- What is the value of the same watch when you have mobile phone all the time with you telling you the correct time and use of this phone is not prohibited. Again,
- Try to compare the value of the same watch from a girls perspective who has lost her watch for ever and the watch belonged to her father.

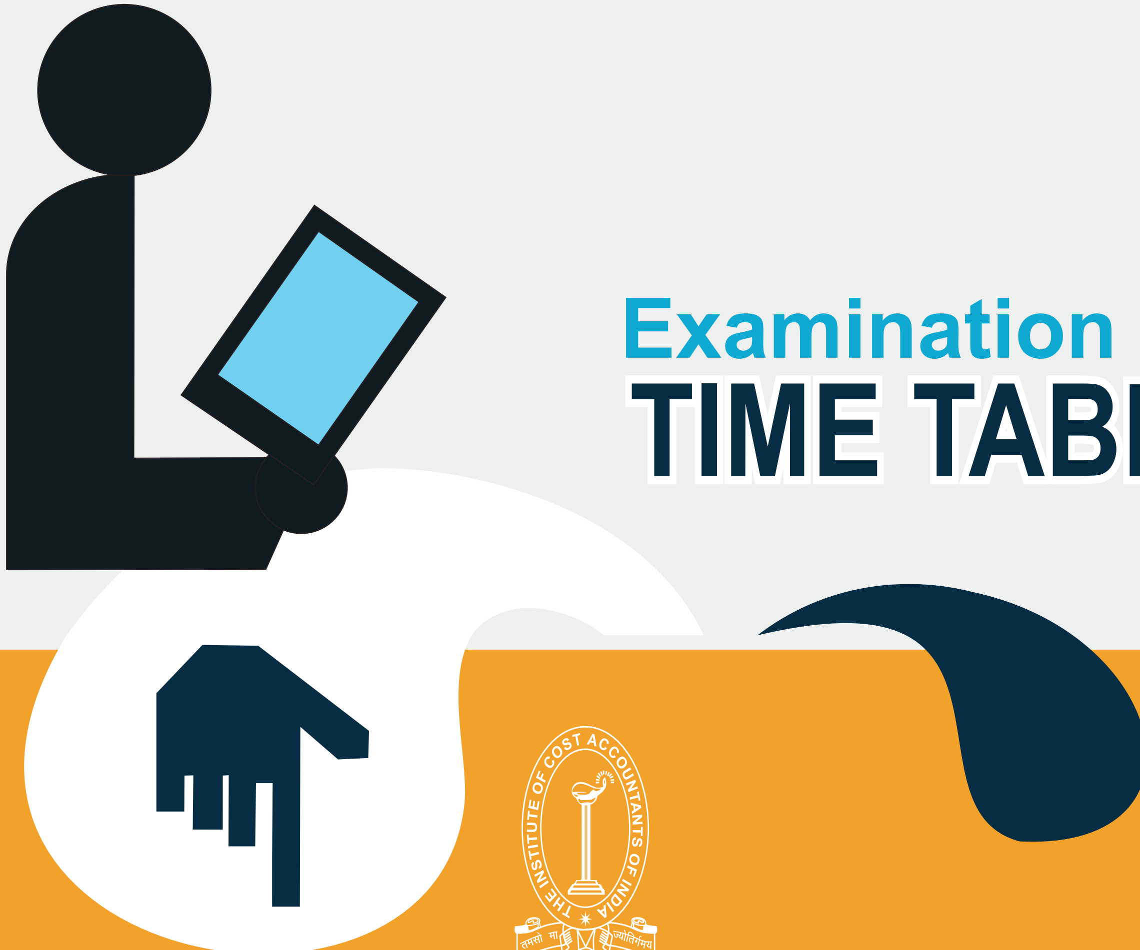
Once you really search answer to these questions around you, you are really becoming curious about value and now if I tell you that value lies in the eyes of the beholder, it may not be difficult for you to understand and now you are all set to understand the core concept of valuation which is nothing but an attempt to identify a value of something intangible and by balancing in between its possible return and risk in an uncertain world. Rest of the chapters is now at you own disposal.

SUBMISSIONS

Give your thoughts on the Student-bulletin. Do you have some news, an achievement, or an aspect of achievement that you would like to share? If so, we would love to hear from you.

e-mail: **studies.ebulletin@icmai.in**

If you do not think you are getting the e-bulletin via email, please let us know, as all students should receive it.



Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

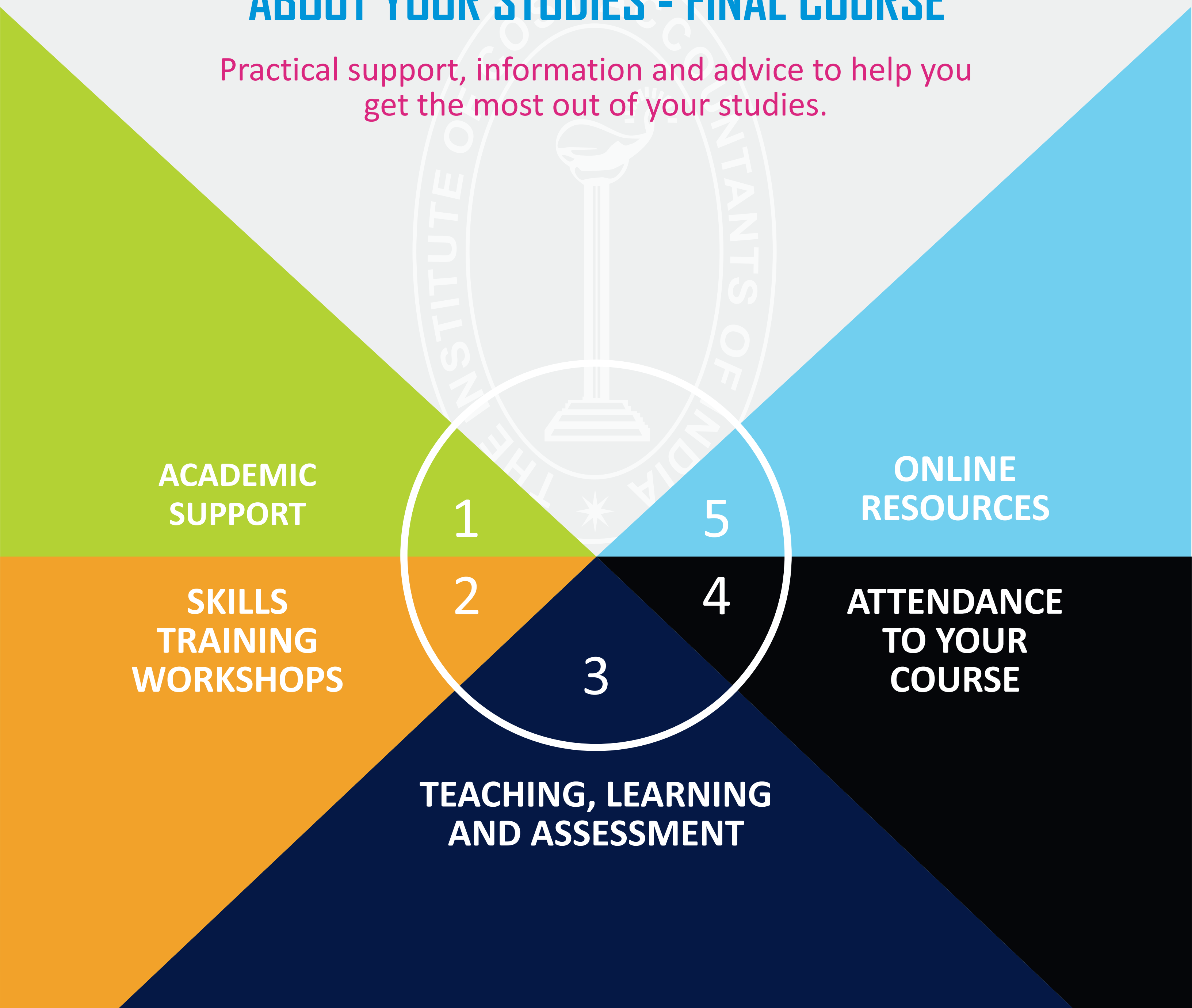
EXAMINATION TIME TABLE & PROGRAMME – DECEMBER - 2016
FINAL COURSE EXAMINATION

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

PRACTICAL ADVICE

ABOUT YOUR STUDIES - FINAL COURSE

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



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. Students may update their E-mail Id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.

Please **share** your **thoughts** 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,

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

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

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

Essentials for Preparation:

- *Conceptual Understanding & Overall Understanding of the subject both should be clear,*
- *Candidates are advised to go through the study material provided by the institute in an analytical manner,*
- *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 answers precisely and in a structured manner,*
- *In-depth knowledge about specific terms required. Write question numbers correctly and prominently.*
- *Proper time management is also important while answering.*

We are very much thankful to the Directorate of Research & Journal for providing us the support in Designing and Composition of this E-bulletin.

Be Prepared and Get Success;

Goodbye and good luck to all of you!

DIRECTORATE OF STUDIES
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100

Follow us on

Behind every successful business decision there is always a CMA