CMA STUDENT E-Bulletin

VOL 10 | NO. 06 | JUNE 2025

An Initiative of Directorate of Studies

ICMAI
THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
Statutory Body under an Act of Parliament
www.icmai.in

About the Institute

The Institute of Cost Accountants of India (ICMAI) is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrols students for its courses, provides coaching facilities to the students, organizes professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants increasingly contributing towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

The Institute is headquartered in New Delhi having four Regional Councils at Kolkata, Delhi, Mumbai and Chennai, 117 Chapters in India and 11 Overseas Centres. The Institute is the largest Cost & Management Accounting body in the world with about 1,00,000 qualified CMAs and over 5,00,000 students pursuing the CMA Course. The Institute is a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The Institute is also an Associate Member of ASEAN Federation of Accountants (AFA) and member in the Council of International Integrated Reporting Council (IIRC), UK.

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"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Institute Motto

असतोमा सद्गमय	From ignorance, lead me to truth
तमसोमा ज्योतिर् गमय	From darkness, lead me to light
मृत्योर्मामृतं गमय	From death, lead me to immortality
ॐ शान्ति शान्ति शान्तिः	Peace, Peace, Peace

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CHAIRMAN'S COMMUNIQUE

Dear CMA Students,

It gives me immense pleasure to connect with you through the June 2025 issue of the CMA Student E-Bulletin. As the Chairman of the Training & Educational Facilities Committee of ICMAI, I am excited to share the latest developments and initiatives that aim to enhance your learning experience and professional growth.

At ICMAI, our commitment to excellence in education and training remains unwavering. We continuously strive to provide you with the best resources, state-of-the-art facilities, and cutting-edge training programs that will prepare you to excel in the field of cost and management accounting. Your success is our primary motivation, and we are dedicated to supporting you every step of the way.

In today's digital age, leveraging technology to facilitate learning is paramount. We have introduced several innovative learning platforms to ensure that you have access to high-quality education regardless of your location. Our online classes, interactive webinars, and virtual workshops provide you with the flexibility to learn at your own pace while maintaining the highest standards of education.

In addition to theoretical knowledge, practical skills are crucial for your professional development. We have designed a variety of skill development programs that focus on real-world applications and industry-relevant practices. These programs include case studies, simulation exercises, and hands-on training sessions that bridge the gap between academic knowledge and practical implementation.

Our collaborations with leading organizations and industry experts provide you with invaluable insights and opportunities to apply your knowledge in real-world scenarios. Through internships, live projects, and guest lectures, you can gain practical experience and understand the nuances of the industry. These collaborations also open doors to networking opportunities that can be instrumental in your career growth.

At ICMAI, we believe in the holistic development of our students. Alongside academic excellence, we emphasize the importance of soft skills such as communication, leadership, and teamwork. Our comprehensive training programs include workshops and seminars focused on developing these essential skills, ensuring that you are well-rounded professionals ready to take on leadership roles.

I am confident that the initiatives and programs we have implemented will significantly enhance your learning experience and prepare you for a successful career. I encourage you to take full advantage of these opportunities and remain dedicated to your goals.

I extend my best wishes to all of you. Your hard work, determination, and passion are the driving forces behind our efforts. Let us continue to work together to achieve excellence and elevate the standards of the cost and management accounting profession.

Warm regards,

CMA Vinayranjan P.

Chairman, Training & Educational Facilities Committee, ICMAI

CMA FOUNDATION COURSE

Syllabus 2022

Topic

Fundamentals of Business Laws -

Module 4: Negotiable Instruments Act, 1881

Business Communication -

Module 5: Business Communication

FOUNDATION

Paper-1

Fundamentals of Business Laws and Business Communication (FBLC)

SECTION – A: FUNDAMENTALS OF BUSINESS LAWS

MULTIPLE CHOICE QUESTIONS (MCQ)

1. Bearer Cheques are also known as ______ cheques.

a) Crossed

b) General

c) Special

d) Open

2. Negotiable Instrument Act came into force in the year—

a) 1861

b) 1881

c) 1871

d) 1891

3. Which of these Instruments are not considered as a Negotiable Instruments?

a) Treasury Bill

b) Money Draft

c) Money order

d) All of the above

4. Features of Negotiable Instruments are—

a) Written and signed

b) Recovery

c) Freely transferable

d) All of the above

5. The term 'negotiation' in section 14 of the N. I. Act, 1881 refers to the

a) Transfer of a bill of exchange, promissory note or cheque to any person, so as to constitute the person the holder thereof

b) Payment by a bank on a negotiable instrument after due verification of the instrument

c) Bargaining between the parties to a negotiable instrument

d) all of the above

6. The term 'Drawer' is explained within section of NI Act, 1881

a) 6

b) 7

c) 8

d) 5

7. If a minor draws, endorses, delivers or negotiates an instrument, such instrument binds

a) all parties to the instrument including the minor

b) only the minor and not other parties to the instrument

c) all parties to the instrument except the minor

d) none of the above

8. In a promissory note, the amount of money payable

a) must be certain

b) may be certain or uncertain

c) is usually uncertain

d) none of the above

9. The term 'Holder' is explained within Section of NI Act, 1881

a) 5

b) 6

c) 7

d) 8

10. The term 'Holder in due course' is explained within section of NI Act, 1881

a) 7

b) 8

c) 9

d) 10

11. The definition of Promissory Note has been given in the section of NI Act, 1881

a) 2

b) 3

c) 4

d) 5

12. The Negotiable Instrument defined in Negotiable Instrument Act, in the section—

a) 11

b) 12

c) 13

d) 14

13. A Bill Payable after a fixed time or "after date" is known as

a) Time Bill

b) Inland Bill

c) foreign Bill

d) Trade Bill

14. The definition of 'cheque' has been given in the section—

a) 4

b) 5

c) 6

d) 7

15. Cheque can be of—

a) Three types

b) Two types

c) Four types

d) Five types

16. An instrument is discharged—

a) By cancellation

b) By payment in due course

c) By release

d) All of these

17. The undertaking contained in a _____ to pay a certain sum of money is unconditional

a) Delivery note

b) Promissory note,

c) Cheque

d) None of the above.

18. Inchoate stamped Instrument has been explained in the section—

a) 19

b) 21

c) 20

d) 22

19. As per the Negotiable Instrument Act, negotiable instruments can be of__ types.

a) 2

b) 3

c) 4

d) 5

20. Features of Promissory Note is—

a) Signed

b) Certain Person

c) Specific sum

d) All of these

21. Different types of Bills of Exchanges are—

a) Foreign Bill

b) Bill in sets

c) Time Bill

d) All of these

22. Which is not a bill of exchange?

a) Foreign Bill

b) Time Bill

c) Account Payee Cheque

d) Trade Bill

23. 'Not negotiable' words written in a cheque between the two parallel lines, is an example of—

a) General Crossing

b) Restrictive Crossing

c) Special Crossing

d) one of these

24. The words 'A/C Payee' or 'A/C Payee only' are written in a cheque between the two parallel lines is an example of—

a) General Crossing

b) Special Crossing

c) Restrictive Crossing

d) None

SECTION – B: BUSINESS COMMUNICATION

25. Which of the following is not an example of a physical communication barrier?

a) Telephonic Disturbances

b) Distance

c) Background noises

d) Language

26. Excessive usage of technical jargons and double meaning words are what type of barrier?

a) Sematic Barriers

b) Psychological Barriers

c) Physical Barriers

d) None of the above

27. Information overload is when Listener gets _______ information.

a) inadequate

b) too much

c) adequate

d) irrelevant

28. Individuals involved in the process of communication must be __________.

a) Critical

b) Open-minded

c) Both A and B

d) None of the above

29. Which of the following is not one of the *8C's of communication*?

a) Consent

b) Completeness

c) Consideration

d) Concreteness

30. Need of proper grammar and syntax comes under which C of communication?

a) Clarity

b) Confident

c) Compelling

d) Correct

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
d	b	b	d	a	b	c	a	d	c	c	c	a	c	b
16	17	18	19	20	21	22	23	24						
d	b	c	b	d	d	c	a	c						

25	26	27	28	29	30
d	a	b	b	a	d

Topic

Fundamentals of Financial Accounting -

Module 1: Accounting Fundamentals

Fundamentals of Cost Accounting -

Module 4: Fundamentals of Cost Accounting

FOUNDATION

Paper-2

Fundamentals of Financial and Cost Accounting (FFCA)

In the following MCQs, only one answer is correct. Find out the same.

1. Which of the following is a best practice for preparing final accounts?

   a) Follow accounting standards

   b) Ensure transparency and accountability

   c) Provide clear and concise information

   d) All of the above

2. What is the impact of audit report on final accounts?

   a) Enhances credibility

   b) Increases reliability

   c) Provides assurance

   d) All of the above

3. Which of the following is a characteristic of final accounts?

   a) Based on accrual accounting

   b) Prepared at the end of the accounting period

   c) Reports financial performance and position

   d) All of the above

4. What is the importance of final accounts?

   a) Helps in decision-making

   b) Provides financial information

   c) Aids in accountability

   d) All of the above

5. Which of the following is a limitation of final accounts?

   a) Based on historical cost

   b) Ignore qualitative factors

   c) Subject to window dressing

   d) All of the above

6. What is the impact of window dressing on financial statements?

   a) Presents a true picture

   b) Presents a false picture

   c) No impact on financial statements

   d) Increases profitability

7. Which of the following is a current liability?

   a) Long-term Loan

   b) Accounts Payable

   c) Capital

   d) Reserves

8. What is the purpose of creating a provision?

   a) To strengthen financial position

   b) To report financial performance

   c) To provide for known liabilities

   d) To value inventory

9. What is the purpose of creating a reserve?

   a) To distribute dividends

   b) To strengthen financial position

   c) To report financial performance

   d) To value inventory

10. What is the impact of understating depreciation?

    a) Overstating net profit

    b) Understating net profit

    c) No impact on net profit

    d) Overstating gross profit

11. What is the impact of overstating closing inventory?

    a) Overstating gross profit

    b) Understating gross profit

    c) No impact on gross profit

    d) Overstating net profit

12. Which of the following is a non-operating income?

    a) Sales

    b) Interest Income

    c) Dividend Income

    d) Both b and c

13. Which of the following errors would affect the trial balance?

    a) Omission of a transaction

    b) Incorrect classification of an account

    c) Error in totalling ledger accounts

    d) All of the above

14. What is the rectification of errors?
    a) Correcting errors in financial statements
    b) Ignoring errors in financial statements
    c) Reporting errors in financial statements
    d) Valuing inventory
15. What is the formula for calculating net profit?
    a) Gross Profit - Operating Expenses
    b) Gross Profit + Operating Expenses
    c) Sales - Cost of Goods Sold
    d) Sales - Taxes
16. Which of the following is an operating expense?
    a) Cost of Goods Sold
    b) Salaries Expense
    c) Interest Expense
    d) Taxes Payable
17. What is the formula for calculating gross profit?
    a) Sales - Cost of Goods Sold
    b) Sales - Operating Expenses
    c) Sales - Taxes
    d) Sales - Dividends
18. What is the purpose of depreciation?
    a) To increase asset value
    b) To decrease asset value
    c) To allocate asset cost over its useful life
    d) To calculate taxable income
19. What is the accounting equation?
    a) Assets = Liabilities + Equity
    b) Assets = Equity - Liabilities
    c) Liabilities = Assets + Equity
    d) Equity = Assets - Liabilities
20. What is purpose of using balance sheet?
    a) To report financial performance over a period
    b) To report financial position at a point in time
    c) To calculate taxable income
    d) To value inventory
21. What is the trading account used for?
    a) To calculate gross profit
    b) To calculate net profit
    c) To report assets and liabilities
    d) To report cash flows
22. Which of the following costs is a controllable cost?
    a) Depreciation on old equipment
    b) Marketing expenses
    c) Raw materials
    d) Factory rent
23. What is the formula for calculating the margin of safety?
    a) Actual sales - Break-even sales
    b) Actual sales + Break-even sales
    c) Break-even sales - Actual sales
    d) Break-even sales + Actual sales
24. What is the purpose of activity-based costing?
    a) To allocate costs based on activities
    b) To allocate costs based on products
    c) To allocate costs based on departments
    d) To allocate costs based on sales
25. Which of the following costs is a product cost?
    a) Marketing expenses
    b) Administrative salaries
    c) Raw materials
    d) Factory rent
26. What is the purpose of a cost sheet?
    a) To calculate the cost of goods sold
    b) To analyse and control costs
    c) To prepare financial statements
    d) To determine the selling price of a product
27. Which of the following is a type of cost behaviour?
    a) Fixed costs
    b) Variable costs
    c) Semi-variable costs
    d) All of the above

28. Which of the following costs is a sunk cost?
    a) Raw materials
    b) Labour costs
    c) Depreciation on old equipment
    d) Marketing expenses

29. What is the difference between absorption costing and marginal costing?
    a) Absorption costing includes fixed costs, while marginal costing excludes fixed costs
    b) Absorption costing excludes fixed costs, while marginal costing includes fixed costs
    c) Absorption costing is used for external reporting, while marginal costing is used for internal decision-making
    d) Absorption costing is used for internal decision-making, while marginal costing is used for external reporting

30. What is the purpose of a flexible budget?
    a) To prepare a budget for a specific level of activity
    b) To prepare a budget for different levels of activity
    c) To calculate the cost of goods sold
    d) To analyse sales trends

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
d	d	d	d	d	b	b	c	b	a	a	d	d	a	a
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
b	a	c	a	b	a	b	a	a	c	b	d	c	a	b

Topic

Fundamentals of Business Mathematics -

Module 3: Calculus - Application in Business

Fundamentals of Business Statistics

Module 5: Measures of Central Tendency and Dispersion

FOUNDATION

Paper-3

Fundamentals of Business Mathematics and Statistics (FBMS)

In this issue we will carry out MCQs on Calculus-Application in Business and Central Tendency – refer Module 3 and Module 5 of Study guide.

1. $\int \frac{(x-1)^2}{x^2} dx$

a) $x + 2\log x + 1/x + C$

b) $x - 2\log x - 1/x + C$

c) $1 + \log x + 1/x + C$

d) $1 - \log x + 1/x + C$

2. $\int \frac{x^3 - 4x^2 + 15x + 36}{x^2 - 6x + 9} dx$

a) $x^2 - 4x + C$

b) $x^2 - 7x + C$

c) $2x^2 - 3x + C$

d) $x^2 - 4x + C$

3. $f(x) = \frac{2}{3}x^3 - 6x^2 - 14x + 7$

a) Maximum, x = 0.5; Minimum, x = 1.5

b) Maximum, x = 4; Minimum, x = 1/3

c) Maximum, x = -1; Minimum, x = 7

d) No curvature

4. $f(x) = \frac{4}{3}x^3 + \frac{3}{2}x^2 - x + 11$

a) Maximum, x = -1/4; Minimum, x = -1

b) Maximum, x = -1; Minimum, x = 1/4

c) Maximum, x = -1; Minimum, x = -1/4

d) No curvature

5. $f(x) = x^3/_3 + 3x^2 - 7x + 14$

a) Maximum, x = -7; Minimum, x = 1

b) Maximum, x = 7; Minimum, x = -1

c) Maximum, x = -1; Minimum, x = -3

d) No curvature

6-8. Are from the following Statement:

Assume that the fixed cost is ₹800, the variable cost is ₹45/unit and the selling price is ₹65/unit. Find the cost function

6. The cost function is

(a) 25x + 650

(b) 45x + 800

(c) 25x + 800

(d) 45x + 650

7. The revenue function is

(a) 45x

(b) 65x

(c) 25x

(d) 35x

8. The break-even quantity is

a) 30

b) 35

c) 40

d) 45

9. Given $R(x)=5x^2 - 30x$; $C(x) = 10x - 15$. The profit function is

a) $5x^2 - 40x - 80$

b) $10x^2 - 40x - 80$

c) $15x^2 - 15x - 80$

d) $5x^2 - 30x - 80$

10 to 12. Based on the following paragraph

In a retail-store the fixed cost is ₹2000 while the variable cost is ₹240. The selling price of the product is ₹490.

10. The cost function is

a) 490x + 2000

b) 20x + 2000

c) 240x + 2000

d) 24x + 2000

11. The break-even quantity is

a) 10

b) 8

c) 6

d) 4

12. The profit function is

a) 240x - 2000

b) 490x - 2000

c) 250x - 2000

d) 24x - 2000

13. Pooled mean is also called

(a) Mean

(b) Geometric mean

(c) Grouped mean

(d) None

14. The mean of first five prime numbers is

(a) 3

(b) 3.6

(c) 7

(d) 5.6

15. Mean of 25, 32, 43, 53, 62, 59, 48, 31, 24, 33 is

(a) 44

(b) 43

(c) 42

(d) 41

16. The AM of 1, 3, 5, 6, x, 10 is 6. The value of x is

(a) 10

(b) 11

(c) 12

(d) None

17. The mean height of 8 students is 152 cm. Two more students of heights 143 cm and 156 cm join the group. New mean height is equal to

(a) 153

(b) 152.5

(c) 151.5

(d) 151

18. If each item is reduced by 15. AM is

(a) Reduced by 15

(b) Increased by 15

(c) Reduced by 10

(d) None

19. Find the AM for the following distribution:

Class Interval	350-369	370-389	390-409	410-429	430-449	450-469	470-489
Frequency	23	38	58	82	65	31	11

(a) 416.71

(b) 520.13

(c) 432.62

(d) 225.71

20. Following is an incomplete distribution having modal mark as 44

Marks	0-20	20-40	40-60	60-80	80-100
Frequency	5	18	?	12	5

What would be the mean marks?

(a) 45

(b) 46

(c) 47

(d) 48

21. Given that the mean height of a group of students is 67.45 inches. Find out the missing frequencies for the following incomplete distribution of height of 100 students.

CI	60-62	63-65	66-68	69-71	72-74
Frequency	5	18	?	?	8

(a) 35, 16

(b) 52, 12

(c) 42, 27

(d) 12, 9

22. The average marks scored by 50 students in a class were calculated to be 38. Later it was found, that marks of two students were wrongly copied as 34 and 23 instead of 43 and 32. Find correct average marks.

(a) 37.36

(b) 39.00

(c) 38.36

(d) None of these

23. If a variable assumes the values 1, 2, 3…. 5 with frequencies as 1, 2, 3,….5 then what is the AM?

(a) 11/3

(b) 5

(c) 4

(d) 4.50

24. If $y = 5x – 20$ & $x = 30$ then the value of y is

(a) 130

(b) 140

(c) 30

(d) None

25. The mean salary for a group of 40 female workers is 5200 per month and that for a group of 60male workers is 6800 per month. What is the combined mean salary?

(a) 6500

(b) 6200

(c) 6160

(d) 6100

26. If there are two groups containing 30 and 20 observations and having 50 and 60 as arithmetic means, then the combined arithmetic mean is

(a) 55

(b) 56

(c) 54

(d) 52

27. The average salary of a group of unskilled workers is ₹10,000 and for a group of skilled workers is ₹15,000. Combines salary is ₹12,000. What is the percent of skilled workers?

(a) 40%

(b) 50^

(c) 60%

(d) None of these

28. ____ is useful in averaging ratios, rates and percentages

(a) AM

(b) GM

(c) HM

(d) None

29. ___ is used when rate of growth or decline required.

(a) Mode

(b) AM

(c) GM

(d) None

30. What is the GM for the numbers 8, 24, and 40?

(a) 24

(b) 12

(c) 8 3 15

(d) 10

Answer:

1	b	By using the formulae
2	d	By using the formulae
3	c	if f'' (x) < 0 → Maximum Find f'(x) and put f' (x) = 0 to find out the roots. Now find f''(x) and put the roots in f''(x) in order to find out the value of f''(x) Then, if f'' (x) > 0 → Minimum
4	b	if f'' (x) < 0 → Maximum Find f'(x) and put f' (x) = 0 to find out the roots. Now find f''(x) and put the roots in f''(x) in order to find out the value of f''(x) Then, if f'' (x) > 0 → Minimum
5	a	if f'' (x) < 0 → Maximum Find f'(x) and put f' (x) = 0 to find out the roots. Now find f''(x) and put the roots in f''(x) in order to find out the value of f''(x) Then, if f'' (x) > 0 → Minimum
6	b	Total Cost = Fixed Cost + Variable Cost (Production cost)
7	b	Revenue Function = Price X Quantity. So, R(x)=P×x
8	c	Put Profit Function = 0
9	a	Profit Function = Revenue Function – Cost Function
10	c	Total Cost = Fixed Cost + Variable Cost (Production cost)
11	b	Put Revenue Function = Cost Function
12	c	Profit Function = Revenue Function – Cost Function

13	14	15	16	17	18	19	20	21
c	d	d	b	c	a	a	d	c
22	23	24	25	26	27	28	29	30
c	c	a	c	c	a	b	c	c

Suggestions:

The study guide is to be followed thoroughly. Supplementary readings could be made from other resources. In this issue MCQs are based on basic concepts developed in the respective modules/sub modules of the study guide. Students should try to solve individual questions with concepts taught in guide book to understand the correct answer of each question. Formula used here are all covered in study guide. Brief solutions on selected problems are given as keys.

Best Wishes.

Topic

Fundamentals of Business Economics -

Module 1:
Basic Concepts

Module 2 :
Forms of Market

Module 3 :
Money and Banking

Module 5:
Fundamentals of Management

FOUNDATION

Paper-4

Fundamentals of Business Economics and Management (FBEM)

TIPS ON
BUSINESS ECONOMICS AND MANAGEMENT
FOR THE MONTH OF JUNE 2025

Let us now start our usual MockTest.

I. Choose the correct answer:

1. Who was the proponent of the welfare definition of economics?
   A. Marshall
   B. Pigou
   C. Robbins
   D. Samuelson
2. Main economic problems faced by any society include
   A. What to produce
   B. How to produce
   C. For whom to produce
   D. All of these
3. An improvement in production technology leads to a
   A. Leftward shift in the PPC
   B. Rightward shift in the PPC
   C. No change in PPC
   D. None of the above
4. In a free market economy the problem of allocation is solved by the
   A. Profit mechanism
   B. Consumption mechanism
   C. Market mechanism
   D. None of the above
5. Given that price elasticity of demand for x, is unity. When p = ₹4, Q = 300. What will be Q when p = ₹3?
   A. 400
   B. 500
   C. 1000
   D. None of the above
6. Suppose the demand curve is $X = 10 – 3P$
   What will be the price elasticity of demand when $P = (5/3)$
   A. Elasticity = 5
   B. Elasticity = 1
   C. Elasticity = 0.5
   D. None of the above
7. The demand for a commodity which can be put to a variety of uses will be
   A. Relatively elastic
   B. Relatively inelastic
   C. Unitary elastic
   D. None of the above
8. The demand for durable goods usually remains
   A. Relatively elastic
   B. Relatively inelastic
   C. Unitary elastic
   D. None of the above
9. The mid-point of a linear demand curve shows a price elasticity of demand which is
   A. Relatively elastic
   B. Relatively inelastic
   C. Unit elastic
   D. Perfectly inelastic
10. Movement along any demand curve shows
    A. Change in demand
    B. Change in quantity demanded
    C. Contraction in demand
    D. None of the above
11. If the price of a complementary good rises, the demand curve shifts to the
    A. Leftward direction
    B. Rightward direction
    C. Upward direction
    D. None of the above
12. When there is decreasing returns to a variable factor, then
    A. AP = MP

B. AP < MP

C. AP > MP

D. None of the above

13. The law of variable proportion explains the shape of

A. AFC curve

B. LAC curve

C. SAC curve

D. None of the above

14. The total cost function is given by C = 100 + 15Q - 6Q square + Q cube. What will be the total fixed cost?

A. 100

B. 15

C. 6

D. None of the above

15. The short-run total cost

A. Cannot be zero

B. Can be zero

C. Both A and B

D. None of the above

16. SMC is equal to the

A. Change in LMC

B. Change in TFC

C. Change in TVC

D. None of the above

17. In the long run, the external economies of scale are enjoyed by

A. An industry

B. A firm

C. Both of them

D. None of the above

18. Kinked demand curve is related to

A. Monopoly market

B. Oligopoly market

C. Monopolistic competition

D. None of the above

19. The Fisher's equation in the Quantity theory of money is

A. MV = PT

B. MP = VT

C. MT = PV

D. None of the above

20. The name of the Central Bank of India is

A. CENTRAL BANK OF INDIA

B. BANK OF INDIA

C. RESERVE BANK OF INDIA

D. None of the above

21. In order to control inflation the central bank should

A. Sell bonds in the open market

B. Lower the bank rate

C. Purchase bonds in the open market

D. None of the above

22. Which is embodied in all the functions of management?

A. Planning

B. Control

C. Organizing

D. Co-ordination

23. A manager has to exhibit the style of leadership depending on the

A. Situation

B. Performance

C. Time

D. Period

24. Operational planning is

A. Long term planning

B. Short term planning

C. Medium term planning

D. Annual planning

25. Which of the following is not a part of staffing?

A. Recruitment

B. Selection

C. Training

D. Publicity

26. Filtering means

A. Hiding some meaning

B. Disclose the information

C. Sending the message

D. None of the above

27. Horizontal communication is also known as

A. Written communication

B. Lateral communication

C. Verbal communication

D. None of the above

28. Which communication creates a record of evidence?

A. Formal

B. Verbal

C. Written

D. All of the above

29. Supervisory directly controls the activities in a

A. Board

B. Committee

C. Team

D. Group

30. Maslow's model is formulated in terms of

A. Wants

B. Rewards

C. Human needs

D. Goals

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
A	D	B	C	A	B	A	B	C	B	A	C	C	A	A
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
C	B	B	A	C	D	A	B	D	D	A	B	C	D	C

So friends!!

I hope you have enjoyed the Mock test. There are a couple of questions based on mathematics. Do not worry. They are very simple. Economics of today involves lots of higher mathematics. So you can not avoid mathematics totally. It will be helpful if you go through the "straight line" chapter of co-ordinate geometry. So long for today!!

Wish you all the best!

CMA INTERMEDIATE COURSE

Syllabus 2022

Topic

Module no. 13: Business Ethics and Emotional Intelligence

INTERMEDIATE

Group I - Paper-5

Business Laws and Ethics (BLE)

BUSINESS LAWS AND ETHICS

It is expected that you, the students should prepare a time-table with time allotted for each subject and read, write, revise and recapitulate all that you keep on reading. The first important point is that you must read the study materials provided by the institute and start asking questions to yourself and find your own answers. In this issue we shall deal with The Ethics with special emphasis on the concept of ethical principles and relation with law.

Concept of Ethics

Ethics is a set of rules that define right and wrong conduct. The term ethics is derived from the Latin word 'ethos' which means character. Ethics is a social science which deals with concepts such as right and wrong, moral and immoral, good and bad behavior of dealing with one another. According to Webster's Dictionary, *ethics is a theory or system or principles that govern an individual or a group by defining rightfulness of their actions*. Actions done by individual or a group *deliberately that have an impact over other*, comes under the purview of ethical ruling. Ethics also defines moral duty and obligation for a *social practice, institution, organization and socio-economic system*. Values such as *honesty, respect, responsibility* taught by our social leaders help us to differentiate right and wrong path in every phases of life. Human mind is complex in nature. So determining a human action *with our changing moral belief* is difficult task. For that reason a set of ethical principles must be established to help individuals in their *ethical reasoning in some difficult situation and justifying their moral beliefs* against standard ethical rules. Keeping in mind these ethical rules, individuals or groups should perform their job with sufficient integrity, objectivity and independence and protect the interest of social people.

Types of Ethics

Philosophers and other social leaders have contributed their thoughtful researches in this field of philosophy.

A. **Meta Ethics**: This form of ethics is about the theoretical meaning and reference of moral propositions and how their truth values may be determined.

B. **Normative Ethics**: This form of ethics is about determining moral course of action for a particular situation. This focus on what should be rather than what it is.

C. **Applied Ethics**: This form of ethics deals with using moral outcomes in practical situation. How individuals in society or organization or business or any other profession use their moral outcomes in their work or family life is the main area of discussion under this head.0

Application of Ethics

A. *Decision Ethics*: This involves ethical theories which are used in decision making process.

B. *Professional Ethics*: Ethical theories provided under this type improve professionalism. Accounting and Auditing Ethics which is the main topic of discussion of this current chapter is an important example of professional ethics.

C. *Clinical Ethics*: This ethics helps to improve our basic health needs.

D. *Business Ethics*: This form of ethics is based on individual morals used to improve ethics in an organization.

E. *Organizational Ethics*: This form of ethics is used to improve ethical sense among organizations.

F. *Social Ethics*: Ethics among nations to treat them as one global unit is referred to social ethics.

ETHICAL PRINCIPLES

Application of ethical principles in business decision making is called business ethics. The interest groups for a business are: (a) investors; (b) employees; (c) customers; (d) suppliers; (e) creditors; (f) legal system; (g) community. Interest groups determine the right and wrong of a business decision. Business evaluates these judgments by the interest groups and defines the principles for business activities. While earning profit is right for some of the interest groups, it may not be so for other categories. Hence, business has to set a pervasive framework within which it must operate. The principles usually incorporate (a) integrity; (b) objectivity; (c) accountability; (d) confidentiality; etc. Rules are to be framed based on these principles. The principles and rules together frames the code of conduct of a business organization according to which every business should run.

THE SEVEN PRINCIPLES OF PUBLIC LIFE

The Seven Principles of Public Life were set out by Lord Nolan for the first time in the year 1995. These principles of public life will apply to anyone who works as a public office holder, including elected and appointed to public office either locally or nationally. These principles apply to civil service; local government, the police, the Courts and probation of services, non-departmental public bodies, health, education, social are care services. These principles also apply to other sector that delivers public services. The British Government appointed a committee called as Committee on Standards in Public Life to advise the Prime Minister on ethical standards of public life. The Committee was established in October 1994. The term of reference to the committee is –

to examine current concerns about standards of conduct of all holders of public office, including arrangements relating to financial and commercial activities; and to make recommendations as to any changes in present arrangements which might be required to ensure the highest standards of propriety in public life. The Committee submitted its first report in the year 1995 containing the seven principles of public life. The said principles have been amended over year. The seven principles of public life as amended up to and as on 2015 areas follows-

1. **Selflessness** – Holders of public office should act solely in terms of the public interest.
2. **Integrity** - Holders of public office must avoid placing themselves under any obligation to people or organizations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
3. **Objectivity** - Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
4. **Accountability** - Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
5. **Openness** - Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
6. **Honesty** - Holders of public office should be truthful
7. **Leadership** - Holders of public office should exhibit these principles in their own behavior. They should actively promote and robustly support the principles and be willing to challenge poor behavior wherever it occurs.

LAWS AND ETHICS

The term "Law" denotes different kinds of rules and principles. Law is an instrument which regulates human behavior. Law means Justice, Morality, Reason, Order, and Righteous from the view point of the society. Law means Statutes, Acts, Rules, Regulations, Orders, and Ordinances from point of view of legislature. Law means Rules of court, Decrees, Judgment, Orders of courts, and Injunctions from the point of view of Judges. Therefore, Law is a broader term which includes Acts, Statutes, Rules, Regulations, Orders, Ordinances, Justice, Morality, Reason, Righteous, Rules of court, Decrees, Judgment, Orders of courts, Injunctions, Tort, Jurisprudence, Legal theory, etc.

Laws and ethics both serve similar purposes of guiding human conduct to make it conducive to civilized social existence. They enforce a sense of right and wrong. Laws refer to the set of codified norms which are enforced by the state. They act as external obligations. On the other hand, ethics refer to the set of norms which guide our internal compass and judgments. While laws apply uniformly to all, ethics can vary from person to person, and they change more frequently than laws. In case of a breach of law, the state is within its right to punish. Hence, they work as a medium of retributive justice. On the other hand, ethics are generally not enforceable. The relationship between laws and ethics is a complex one. Many laws are representative of ethics of the time and have been shaped by what is considered ethical. The idea that everyone is equal before law is derived from the value that human is born equal. At the same time, laws have shaped ethics. They have been used to counter regressive doctrines. From the above we can say that laws alone are not enough to promote ethical behaviour. Laws can never be so exhaustive to cover each and every scenario possible. Hence, there will always be scope for discretion. In such scenarios, ethical behaviour should come from within. There are many scenarios where laws cannot exist, as we cannot have strict laws to scrutinize every small act of corruption. Even with laws, some unethical practices continue to exist such as violence against women. Laws and ethics are equally important and go hand in hand.

Topic

Module 4: Partnership Accounting

INTERMEDIATE

Group I - Paper-6

Financial Accounting (FA)

Partnership

A partnership is a formal relationship between two or more individuals who agree to contribute their resources, skills, or labor to operate a business and share the profits, losses, and responsibilities associated with it. Partnerships are a common business structure because they combine the resources and expertise of multiple people, allowing for shared decision-making and mutual growth.

According to the Indian Partnership Act, 1932, *"Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."*

Types of Partnerships

1. **General Partnership:**
   - o All partners have unlimited liability.
   - o All partners are actively involved in the firm's management.
   - o Profits and losses are shared as per the agreement.
2. **Limited Partnership:**
   - o Combines general and limited partners.
   - o Limited partners contribute capital but do not participate in management.
   - o Liability of limited partners is restricted to their investment.
3. **Partnership at Will:**
   - o Formed for an indefinite period.
   - o Dissolved at the will of partners.
4. **Particular Partnership:**
   - o Formed for a specific project or activity.
   - o Dissolves upon the completion of the project.

Features of a Partnership

1. **Agreement-Based Relationship:** Partnerships are formed through an agreement, which may be oral or written.
2. **Mutual Agency:** Each partner is both an agent and a principal. They can bind the firm by their actions, provided those actions are within the scope of business.
3. **Unlimited Liability:** Partners are personally liable for the firm's debts. Their personal assets can be used to settle liabilities if required.
4. **Profit Sharing:** Partners share profits and losses as per the terms of the agreement or equally in the absence of any agreement.
5. **Non-Transferability:** A partner cannot transfer their share of the business to an outsider without the consent of other partners.
6. **Flexible Management:** The management and operation of the firm can be adapted to suit the needs of the partners.

Admission, Retirement and Death of Partners

These are significant events in the life of a partnership that can affect its continuity, capital structure, and profit-sharing arrangements.

1. Admission of a Partner

When a new partner is admitted to an existing partnership, the following adjustments need to be made:

- **Change in Profit-Sharing Ratio:** The profit-sharing ratio is altered to accommodate the new partner.
- **Goodwill Adjustment:** The incoming partner compensates the existing partners for their share of goodwill.
- **Capital Contribution:** The new partner contributes capital to the firm. This could be in cash or kind.
- **Revaluation of Assets and Liabilities:** Revaluation ensures that assets and liabilities reflect their current value.
- **Adjustment of Reserves and Accumulated Profits/Losses:** These are shared among the existing partners in the old profit-sharing ratio before admitting the new partner.

2. Retirement of a Partner

When a partner retires, their share of the firm's assets and liabilities is settled. The following adjustments are made:

- **Calculation of Retiring Partner's Share:** Includes share in goodwill, revaluation of assets and liabilities, accumulated reserves, and profits.
- **Payment to the Retiring Partner:** The amount due can be paid immediately or in installments.
- **Reconstitution of the Firm:** Remaining partners agree on a new profit-sharing ratio.
- **Adjustment of Continuing Partners' Capitals:** Capitals are adjusted as per the new profit-sharing ratio.

3. Death of a Partner

In case of the death of a partner, the adjustments are similar to retirement but with additional considerations:

- **Share of Profits:** The deceased partner's share of profits until the date of death is calculated.
- **Settlement with Legal Heirs:** The amount due is settled with the legal heirs.
- **Insurance Proceeds:** If the firm had taken a partnership insurance policy, proceeds are used for settlement.

In conclusion, the processes of admission, retirement, and death of partners are critical events in a partnership firm that necessitate significant adjustments to ensure fairness and continuity. The admission of a new partner can infuse fresh capital, skills, and ideas into the firm but requires adjustments in profit-sharing ratios, capital contributions, and goodwill distribution to balance the interests of both incoming and existing partners. Similarly, the retirement of a partner involves careful settlement of their dues, including their share of capital, goodwill, and accumulated profits or reserves. Proper revaluation of assets and liabilities and recalibration of the profit-sharing arrangement among the remaining partners help in maintaining the financial stability of the firm.

The death of a partner, being an unavoidable occurrence, requires meticulous calculation and settlement of their share of the partnership's assets and profits, often involving their legal heirs. Provisions such as life insurance or specific clauses in the partnership deed can ease the financial burden on the firm and its remaining partners during such times. These events highlight the importance of having a comprehensive partnership deed that anticipates and addresses the potential complexities of these transitions. With mutual understanding and fair treatment, these changes can be managed effectively, ensuring the partnership's longevity and success.

Dissolution and Amalgamation of Partnership

Partnership dissolution and amalgamation are critical events in the life of a partnership firm, involving significant changes to its structure and operations. These events are governed by legal principles, accounting standards, and mutual agreements among the partners.

Dissolution of a Partnership

Dissolution refers to the termination of a partnership, where the firm ceases to exist as a business entity.

Types of Dissolution

1. **Dissolution of Partnership:**
    - The partnership is reconstituted, but the business continues. This occurs due to admission, retirement, or death of a partner.
    - Only the existing agreement is terminated, and a new agreement is formed.
2. **Dissolution of the Firm:**
    - The partnership firm itself is terminated, and the business stops operating.
    - Assets are sold, liabilities are settled, and the remaining balance is distributed among partners.

Modes of Dissolution

1. **By Agreement:**
    - Partners mutually agree to dissolve the firm.
    - Governed by the partnership deed or a unanimous decision.
2. **Compulsory Dissolution:**
    - By operation of law, such as insolvency of all partners, or the business becoming illegal.
3. **On Notice:**
    - In the case of a partnership at will, one partner can dissolve the firm by serving notice to the others.

4. **Court Intervention:**
   - o A court may order dissolution due to misconduct, breach of the agreement, incapacity of a partner, or continuous losses.

Settlement During Dissolution

1. **Payment of Debts and Liabilities:**
   - o Creditors and outside liabilities are settled first.
2. **Repayment of Loans by Partners:**
   - o Loans from partners are repaid after settling external debts.
3. **Return of Capital:**
   - o Capital contributions are repaid to partners.
4. **Distribution of Residual Balance:**
   - o Any remaining amount is shared among partners based on the profit-sharing ratio.

Amalgamation of Partnership

Amalgamation occurs when two or more partnership firms merge to form a new partnership firm, combining their resources, assets, and liabilities.

Reasons for Amalgamation

1. **Expansion of Business:**
   - o Combining firms to achieve economies of scale or market expansion.
2. **Pooling Resources:**
   - o Sharing capital, expertise, and labor for better efficiency.
3. **Synergies:**
   - o Leveraging the strengths of each firm to improve overall profitability.
4. **Financial Stability:**
   - o Merging to address financial challenges or avoid competition.

Steps in Amalgamation

1. **Valuation of Assets and Liabilities:**
   - o Assets and liabilities of each firm are revalued to determine their fair market value.
2. **Settlement of Old Accounts:**
   - o Outstanding debts, liabilities, and partner's dues in the old firms are settled.
3. **Creation of a New Partnership Agreement:**
   - o A new deed is drawn up, specifying terms like profit-sharing ratios, capital contributions, and operational guidelines.
4. **Combining Capital Accounts:**
   - o Partners' capital accounts from the old firms are merged into the new firm based on their agreed contributions.
5. **Recording of Assets and Liabilities:**
   - o The new firm takes over the assets and liabilities of the old firms.

Differences between Dissolution and Amalgamation

Aspect	Dissolution	Amalgamation
Definition	Termination of a partnership firm.	Merger of two or more firms into one.
Business Continuity	The business ceases to operate.	The business continues in a new firm.
Reason	Closure due to legal, financial, or mutual issues.	Expansion, synergies, or financial stability.
Outcome	Assets are liquidated, and liabilities settled.	A new partnership firm is formed.

In conclusion, dissolution and amalgamation of a partnership firm represent two pivotal transitions in its lifecycle. Dissolution involves the termination of the partnership, leading to the cessation of business operations and settlement of all assets and liabilities. This process ensures that all stakeholders, including creditors, partners, and other parties, receive their rightful dues. Dissolution can be initiated by mutual agreement, legal mandate, or court intervention, and its execution requires careful accounting and compliance with legal formalities to avoid disputes and ensure fairness among all partners.

On the other hand, amalgamation focuses on growth and synergy by merging two or more partnership firms into a single entity. It enables the new firm to leverage pooled resources, shared expertise, and economies of scale to enhance efficiency and market competitiveness. Amalgamation also involves complex financial and legal adjustments, such as revaluation of assets and liabilities, goodwill accounting, and the creation of a new partnership agreement. While dissolution signifies the end of a business journey, amalgamation marks a new beginning, highlighting the dynamic nature of partnerships and their ability to adapt to changing business environments.

Questions:

1. What is the primary document that governs the terms and conditions of a partnership?

   a. Memorandum of Association

   b. Articles of Association

   c. Partnership Deed

   d. Agreement of Incorporation

2. Which of the following types of liability applies to partners in a partnership firm?

   a. Limited liability

   b. Unlimited liability

   c. Joint liability only

   d. No liability

3. Which Act governs partnerships in India?

   a. Companies Act, 2013

   b. Contract Act, 1872

   c. Indian Partnership Act, 1932

   d. Indian Trusts Act, 1882

4. What happens to the profit-sharing ratio when a new partner is admitted?

   a. It remains unchanged

   b. It changes as per the agreement

   c. It is decided by the retiring partner

   d. None of the above

5. What is the primary objective of revaluing assets and liabilities during admission or retirement?

   a. To ensure fair value adjustments

   b. To calculate interest on capital

   c. To distribute reserves equally

   d. None of the above

6. If a partner retires and their share is not paid immediately, what is created?

   a. A goodwill account

   b. A loan account

   c. A reserve account

   d. A suspense account

7. What does the dissolution of a partnership firm imply?

   a. Change in the profit-sharing ratio of partners

   b. Termination of the partnership firm and its business operations

   c. Admission of a new partner into the firm

   d. Amalgamation of two partnership firms

8. Which of the following is settled first during the dissolution of a partnership firm?

   a. Loans from partners

   b. Partner's capital accounts

   c. External liabilities

   d. Remaining balance among partners

9. Amalgamation of partnership firms results in:

   a. Closure of business operations

   b. Creation of a new partnership firm

   c. Distribution of assets among existing partners

   d. Settlement of accounts and dissolution of the firm

10. Which legal provision governs the dissolution of a partnership in India?

    a. Indian Partnership Act, 1932

    b. Indian Companies Act, 2013

    c. Contract Act, 1872

    d. Arbitration and Conciliation Act, 1996

Answer:

1	2	3	4	5	6	7	8	9	10
c	b	c	b	a	b	b	c	b	a

Topic

Module 3: Total Income and Tax Liability of Individuals & HUF

INTERMEDIATE

Group I - Paper-7A

Direct Taxation (DT)

Alternate Minimum Tax

The Finance Act, 2011 had introduced the concept of AMT in relation to LLPs and accordingly the LLPs were subject to AMT @ 18.5% of adjusted total income. Total income shall be increased by deductions claimed under Part C of Chapter VI-A and deductions claimed u/s 10AA to arrive at adjusted total income. The Finance Act, 2012 extended the levy of AMT to certain persons other than companies.

Subsequently, the investment linked deductions have been provided in place of profit linked deductions. With a view to include the investment linked deduction claimed u/s 35AD in computing adjusted total income for the purpose of calculating alternate minimum tax, it was amended so as to include deduction claimed u/s 35AD for the purpose of computation of adjusted total income.

Concept	Highlight
Applicability	Non-companies claiming major deductions
Rate	18.5% (9% or 15% in special cases)
Exception	Income ≤ ₹20 lakhs (not applicable for Firm / LLP)
Form	Form 29C from an accountant
Credit c/f	15 years

At present the Act provides that where the regular income-tax payable by a person, other than a company, for a previous year computed as per the provisions of the Income-tax Act, 1961 (other than Chapter XII-BA) is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @ 18.5%.

Alternate Minimum Tax (AMT) [Sec. 115JC]

Applicable to

All assessee (other than company) who has claimed any deduction under:

- Sec. 80H to Sec. 80RRB (other than sec. 80P); or
- Sec.10AA
- Sec.35AD

Exception:

The provisions shall not apply to an individual or a HUF or an AOP or a BOI, whether incorporated or not, or an artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.

Taxpoint:

- The exception is not applicable in case of a Firm and Limited Liability Partnership. That means AMT is applicable on LLP / Firm (claiming deduction under aforesaid section) even though adjusted total income does not exceed ₹ 20 lakh.
- The provisions of this section shall not apply to a person who has exercised the option referred to in sec. 115BAC or 115BAD [alternative tax regime]
- The provision is not applicable to the specified fund referred to in clause (c) of the Explanation to sec. 10(4D).

Scheme of Alternate Minimum Tax (AMT)

Step 1	Compute regular income tax liability (before Cess) of the assessee covered under these provisions	**A**	****

Step 2	Compute Adjusted Total income of the assessee i.e.			*****
	Total income of the assessee	****	**B**	
	Add:			
	• Deduction claimed u/s 80H to sec. 80RRB (other than sec. 80P)	***	**C**	
	• Deduction claimed u/s 35AD *less* Depreciation u/s 32	***	**D**	
	• Deduction u/s 10AA	***	**E**	
	Adjusted Total Income	****	**F**	
	Note: **(i)** If 'C', 'D' and 'E' is zero, then these provisions are not applicable to any assessee. **(ii)** if 'F' does not exceed ₹ 20 lakh, then these provisions are not applicable in case of an Individual / HUF / AOP / BOI / Artificial juridical person. However, the provision is applicable on LLP / Firm.			
Step 3	Compute Alternate Minimum Tax (AMT) [Being 18.5% of Adjusted Total Income]		**G = F * 18.5%**	****
Step 4	Income Tax liability		**Higher of A & G**	****
	Add: Health & Education Cess			**
	Tax liability after Cess			****

Exceptions

- Unit in IFSC: Where the assessee is a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange, the rate of AMT shall be 9%
- Co-operative Society: In the case of co-operative societies the rate would be 15%.
- Further the provision of AMT is not applicable if the assessee is paying tax u/s 115BAC(1A) [i.e., under new tax regime] or co-operative societies paying tax u/s 115BAD or sec. 115BAE.

Impact where AMT is applicable i.e., a case where the value of Step 3 is higher than the value of Step 1

a. Adjusted total income (as computed in step 2) shall be deemed as total income of the assessee.

b. Tax liability of the assessee shall be 18.5%[1] (+ surcharge + cess) of adjusted total income of the assessee.

c. A report in Form 29C from a chartered accountant is required to be upload one month prior to the due date of furnishing of return of income u/s 139(1).

d. All other provisions of the Act, like advance tax, interest, etc. apply to such assessee.

Tax credit for alternate minimum tax [Sec. 115JD]

- The excess of alternate minimum tax paid over the regular income tax payable of that year shall be allowed as tax credit.

Mathematically, tax credit available = Tax paid u/s 115JC – Regular Tax payable

1 Or 15% or 9% as the case may be

- However, no interest shall be payable on the tax credit allowed.
- The amount of tax credit determined shall be carried forward and set off but such carry forward shall not be allowed beyond the 15th assessment year immediately succeeding the assessment year in which tax credit becomes allowable.
- The tax credit shall be allowed set-off in a year when regular tax becomes payable by the assessee.
- Set off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the alternate minimum tax payable u/s 115JC for that assessment year and the balance of the tax credit, if any, shall be carried forward. In other words, after setting off of AMT credit, tax liability of the year cannot be less than AMT for that year.
- The amount of tax credit in respect of any income-tax paid in any country or specified territory outside India u/s 90 or 90A or 91, allowed against the alternate minimum tax payable, exceeds the amount of the tax credit admissible against the regular income-tax payable by the assessee, then, while computing the amount of credit u/s 115JD, such excess amount shall be ignored.
- If the amount of regular income-tax or the AMT is reduced or increased as a result of any order passed under this Act, the amount of tax credit allowed under this section shall also be varied accordingly.

Tax Credit for AMT (Sec. 115JD)

When AMT is more than regular tax, the excess amount is allowed as credit.

- Tax Credit = AMT paid – Regular Tax
- Key Points:
  - No interest on credit
  - Can be carried forward up to 15 years
  - Set off allowed only when regular tax > AMT in a future year

Conclusion

Alternate Minimum Tax (AMT) plays a vital role in promoting equity in the tax system. It ensures that taxpayers who claim substantial deductions under the Income-tax Act do not escape their fair share of tax liability. While it primarily targets non-corporate entities like LLPs and firms, individuals and other entities must also be vigilant when their adjusted total income exceeds the specified threshold.

For CMA Inter students, mastering AMT is essential not only for exam success but also for real-world application in practice areas like compliance advisory and tax planning. A solid understanding of when AMT applies, how it is computed, and how tax credit works can significantly enhance both academic performance and professional competence.

 Remember: Even if deductions reduce your regular tax liability, AMT ensures a minimum tax is always paid.

Topic

Module 6 : Customs Act & Rules

INTERMEDIATE

Group I - Paper-7B

Indirect Taxation (IDT)

Customs Valuation Rules

The terms 'customs' derives its colour and essence from the term 'custom', which means a habitual practice or course of action that characteristically repeated in like circumstances. The collection of revenue through Customs is known in India, from the time immemorial. Laws for collection of revenue and punishments for violation thereof are indicated as early as in Kautilya's "Arthasasthra". Customs, as a major source of revenue, plays a very important role in the economy of our country.

Entry No. 83 of the List I to the Schedule VII of the Constitution empowers the Union Government to legislate and collect duties on imports and exports. Accordingly, the Customs Act, 1962, effective from 1-2-1963 provides vide its section 12 for the levy of duties on goods imported into or exported from India. The items and the rates of duties leviable thereon are specified in two Schedules to the Customs Tariff Act, 1975. The First Schedule specifies the various import items in systematic and well considered categories, in accordance with an international scheme of classification of internationally traded goods known as 'Harmonized System of Commodity Classification' and specifies the rates of import duties thereon, as prescribed by the legislature. The duties on imported items are usually levied either on specific or ad-valorem basis, but in few cases specific-cum-ad valorem duties are also levied. The Second Schedule incorporates items that are subject to exports duties and the rates of duties thereof.

The rate of customs duty leviable on imported or exported goods are either specific or ad valorem basis (i.e., as a percentage of the value of goods) or at times on specific cum ad valorem. In case of ad valorem duty, the valuation of the goods may be determined in any of the following manner:

Valuation on the basis of Transaction Value [Sec. 14(1)]

1. ***Valuation of Imported Goods***: The value of the imported goods shall be the transaction value of such goods, that is to say,
   - the price actually paid or payable for the goods;
   - when sold for export to India;
   - for delivery at the time and place of importation;
   - where the buyer and seller of the goods are not related; and
   - price is the sole consideration for the sale

   subject to such other conditions as may be specified in the rules[1] made in this behalf.

Taxpoint

- Such transaction value in the case of imported goods shall include, in addition to the price as aforesaid, any amount paid or payable for costs and services, including
  - commissions and brokerage (excluding buying commission);
  - engineering, design work;
  - royalties and licence fees;

1 The Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 have been specified.

- costs of transportation to the place of importation;
- insurance;
- loading, unloading and handling charges

to the extent and in the manner specified in the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007

Customs Valuation (Determination of price of imported goods) Rules, 1988

Methods to be followed (in hierarchal order) for determination of the price of imported goods

- Primary Method: Transaction value [Rule 3]
- Secondary Method
  1. Transaction value of identical goods [Rule 4]
  2. Transaction value of similar goods [Rule 5]
  3. Deductive value [Rule 7]
  4. Computed value [Rule 8]
  5. Residual method [Rule 9]

Note: On request, the order of application of rules 7 (i.e. Deductive value) and 8 (i.e. Computed value) shall be reversed.

Transaction Value [Rule 3]

The transaction value is the price actually paid or payable for the goods when sold for export to India. This includes:

- Freight and insurance up to the port of import
- Commissions (excluding buying commission)
- Royalties and license fees
- Cost of loading/unloading and handling

Conditions:

- Buyer and seller are not related
- Price is the sole consideration
- No restrictions affecting the sale

Transaction value of identical goods [Rule 4]

If Rule 3 can't be applied, value can be determined using identical goods:

- Same country and manufacturer
- Same characteristics, reputation, and quality
- Adjustments allowed for quantity or commercial level differences

Transaction value of similar goods [Rule 5]

Applied if identical goods are not available.

Conditions:

- Similar characteristics and components
- Commercially interchangeable
- Produced in the same country

Deductive Value [Rule 7]

Value is based on the sale price of the imported goods in India to unrelated buyers. Deductions include:

- Profit and general expenses
- Duties and taxes
- Internal transport and handling

Taxpoint

1. Where such goods are not sold at or about the same time of importation of the goods being valued, then the value of imported goods shall be based on the unit price at which the imported goods or identical or similar imported goods are sold in India at the earliest date after importation but before the expiry of 90 days after such importation.
2. Where such goods are sold in India after further processing, then the value shall be based on the unit price at which the imported goods after processing are sold in the greatest aggregate quantity to an unrelated person in India as reduced by processing and other cost (as referred above) incurred in India.

Computed value [Rule 8]

Used when enough production data is available:

- Cost of materials and fabrication
- Profit margin
- Freight, insurance, and handling charges

Residual method [Rule 9]

Where the value of imported goods shall not be determined as per any preceding rules, then the value shall be determined using -

- reasonable means consistent with the principles;
- general provisions of these rules; and
- data available in India.

Quick Recap Table:

Rule	Method	Key Basis
3	Transaction Value	Actual Price Paid
4	Identical Goods	Same in all respects
5	Similar Goods	Commercially Interchangeable
7	Deductive Value	Resale Price in India
8	Computed Value	Cost of Production + Profit
9	Residual Method	Reasonable Means

Conclusion

These methods are designed to ensure that customs valuation is based on real economic transactions and reflects the true value of the goods. Importers must provide detailed documentation to support their declared value, including invoices, contracts, and other relevant documents. Failure to comply with these rules can result in penalties, including additional duties and fines.

Topic

Module 6 :
Cost Accounting Techniques

INTERMEDIATE

Group I - Paper-8

Cost Accounting (CA)

MARGINAL COSTING

Marginal costing is concerned basically with the determination of product costs, which consist of total cost less the fixed cost. It is said to have begun around the turn of the 19th century when the idea of estimating overhead in advance and predetermined overhead rate was developed.

Marginal costing has been used mainly for internal reporting with a view to enabling the management to effectively plan and control the operations. It is a management technique of ascertaining marginal costs and of the effect on profit of changes in volume or type of output by differentiating the total cost into fixed and variable.

CIMA defines marginal costing as 'the accounting system in which variable costs are charged to the cost units and fixed costs of the period are written-off in full against the aggregate contribution. Its special value is in decision-making'.

It is a technique, which considers the accumulation of all costs i.e. both fixed and variable cost. Here all manufacturing expenses are charged to product cost. It is also known as total costing or conventional costing.

Contribution

The difference between sales and variable costs or marginal costs is known as contribution. It is vital in marginal costing. It is the margin not the profit.

Marginal cost equation

This equation is developed through the concept of contribution. The contribution is the difference between sales and variable cost or may be said to be equal to fixed cost and profit (or loss).

From the above we can write :

Total Cost = Variable Cost (V) + Fixed Cost (F)

Profit (P) = Sales (S) - Total Cost (V + F)

As, Contribution (C) = Sales - Variable Cost.

Hence we can write :

S = V + F + P (if any)

S- V = F + P (if any)

:. C = F + P

in case of loss C = F - L

Break-even point

Break-even point is a point where there is neither profit nor loss. Here the contribution is equal to fixed cost. It is the level of output which breaks even the costs and revenues and hence called BEP. In graphical representation of cost volume profit relationship break-even point is point at which the total cost line and the total sales line intersect each other.

Break-even Chart

The Break-even Chart is a graphical representation of marginal costing. It can be defined as a chart which shows the profitability or otherwise of an undertaking at various levels of activity and as a result indicates the point at which neither profit nor loss is made.

The B.E. Chart can express the following information at various level of activity :

(1) Variable Cost, Fixed Cost and Total Costs.

(2) Total sales and Break-even point or B.E. Sales

(3) Profit or loss

(4) Margin of safety

(5) Angle of incidence.

Profit Volume (P/V) Ratio :

It is the ratio of contribution to sale. Generally it is expressed in percentage form. It can be symbolically expressed as p/v ratio =C/S x 100 or (S - V) /Sx 100

Where C = Contribution, S = Sales, V = Variable cost.

It can also be expressed as a ratio of change in contribution to change in sales i.e.

P/V Ratio = Changes in contribution ÷ change in sales.

Or, Changes in Profit ÷ Changes in sales (in case of Profit).

It remains constant at different levels of operations, in spite of changing its fixed cost, as P/V ratio is the relationship between contribution and sales.

Importance of P/V ratio :

As P/V ratio is a function of sales and variable cost, its improvement implies an increase in the gap between sales and variable cost. This can be done in the following ways:

(i) Increase in selling price

(ii) Reducing marginal cost

(iii) Altering the sales mixture

Margin of Safety :

It represents the difference between the actual sales and B.E. sales. In other words, it is the excess of sales (budgeted or actual) over the B.E. sales. The soundness of the business can be measured with the help of margin of safety. It depends on the level of fixed cost, rate of contribution and level of sales. The relationship of margin of safety with sales can be expressed as :

(i) Margin of safety = Sales - Break-even Sales.

(ii) Margin of Safety = Profit ÷ P.V. Ratio.

Angle of incidence :

It is the angle formed between the sales line and the total cost line. It indicates the rate at which profits are earned. It also indicates the profit-earning capacity of a business. When the angle of incidence is large, it indicates a high margin of profit. On the other hand, a low angle of incidence means a low rate of profit. The soundness and weakness of a business can also be indicated with the help of the angle of incidence and the margin of safety.

Use of cost volume Profit analysis

The uses of cost-volume-profit analysis are as follows :

(1) It helps the management to estimate or predict profit over a wide range of volumes.

(2) It helps the management in taking many crucial decisions viz. whether capacity or volume of sales should be increased or not, how can the profit be increased by utilizing the existing capacity etc.

(3) With the help of this relationship the profit performance of a concern can be easily evaluated.

(4) It helps in profit planning.

(5) It helps the management in product pricing.

Application of Marginal Costing

(1) **Fixation of Selling Price**

The following are some of the important areas where marginal costing can be applied to serve the day-to-day needs of management in taking many strategic decisions.

Price fixation is one of the principal functions of the management. Product pricing is necessar under different circumstances such as

(a) Under normal situations;

(b) In times of competitions or trade depressions;

(c) At the time of accepting additional order for utilizing idle capacity, exporting etc.

(2) **Selling at or below Marginal Cost**

In most of the cases the prices are equal to marginal costs plus certain markup.

(3) level of Activity Planning

Where contribution is maximum that will be the optimum level of activity.

(4) **Evaluation of Profitability**

The decision for continuation of a department depends to a large extent on their comparative profitability

(5) **Selection of Profitable Sales Mix**

Here the best product mix is that which yields the maximum contribution.

(6) **Key /limiting Factor**

The key factor is that which puts a limit on production or sales.

(7) **Make or Buy**

A concern may have idle capacity which can be utilized for producing a component or part instead of buying that from outside suppliers.

Profit is always the final goal to the businessman as well as to the management. The expression cost-volume-profit relationship is thus important to the management. Profit is actually the result of interplay of cost-volume and selling price. The effectiveness of a manager largely depends upon his ability to make correct prediction about future profits. The knowledge of cost-volume profit relationship helps the management to find out the right path to solve the various problems that it faces in the course of its actions

A problem is being set ,based on application of different formulas of Marginal Costing is given below.

Problem:

The variable cost structure of a product manufactured by a company during the current year is as under :

Material	₹ 120 per unit,
Labour	₹ 30 per unit.
Overhead	₹ 12 per unit.

The selling price per unit is ₹ 270 and he fixed cost and sales during the current year are ₹14 lakhs and ₹40.5 lakhs, respectively.

During the forthcoming year the direct workers will be entitled to a wages increase of 10%from the beginning of the year and the material cost , variable overhead and fixed overhead are expected to increase by 7.5%, 5%, and 3%, respectively .

You are required to compute :-

a) New ale price in the forthcoming year if the current P/V ratio is to be maintained.

b) Number of units that would require to be sold during the forthcoming year so as to yield the same amount of profit in the current year, assuming that selling price per unit wll not be increased.

Solution :-

No. of units sold = Total Sales / Selling Price per unit. = 4050000/ 270 = 15000units.

Contribution per unit = Sales – Variable Cost = 270 – (120+30+12) = 108 per unit.

Total Contribution = 15000 units x 108	= ₹ 1620000
Less:-- Fixed Costs	₹ 1400000
Total Profit	₹ 220000

P/V Ratio = (Contribution / Sales per unit)x 100= 108/270x100 =40%

a) Statement showing the new selling price for the forthcoming year by maintaining the current year's P/V ratio.

Revised variabl cost per unit .

Material = 120 x107.5 / 100	= 129.00
Labour = 30 x 110/100	= 33.00
Variable O/H 12 x 105 /100	= 12.60
Total	₹174.60

P /V ratio = (S – V)/ S = 40% , Therefore, 40/100 = (S- 174.60)/ S , Therefore, S = 291.00

Revised Selling price = ₹291.

b) Revised contribution per unit = Sales – Variable cost . = 270 – 174.60 = ₹ 95.40 per unit.

Desired contribution = Fixed cost + Desired Profit

Fixed cost = 1400000 x 103/100	= 1442000
Add : Desired Profit	220000
Total Contribution	= 1662000

Total number of units to be sold = Total Contribution / Contribution per unit

= 1662000/95.40

= 17422 units.

I think solution of the problem can easily understand the steps to be followed in order to solve a Problem.

Topic

Module 6 : Project Management, Monitoring and Control

INTERMEDIATE

Group II - Paper-9

Operations Management and Strategic Management (OMSM)

Operations Management

In this issue let us discuss preliminaries on – Project Management Monitoring & Control –PERT/CPM/ Gantt Charts

Project Management **Monitoring and Control** involves tracking, reviewing, and regulating the progress and performance of a project to ensure that it stays on course with respect to the project management plan. The goal is to identify any areas where changes are needed and to initiate those changes. This phase is continuous throughout the project lifecycle.

Key Procedures of Project Monitoring and Control

1. Performance Measurement

- **Track Progress**: Measure actual project performance (schedule, cost, scope, quality) against the project management plan.
- **Tools**:
  - o Earned Value Management (EVM)
  - o Key Performance Indicators (KPIs)
  - o Gantt Charts / Dashboards
  - o Status reports

2. Schedule Control

- **Monitor timelines**: Ensure tasks are completed on time.
- **Tools**:
  - o Critical Path Method (CPM)
  - o Schedule variance and performance index
- **Actions**:
  - o Identify schedule deviations
  - o Reallocate resources if needed
  - o Update timelines

3. Cost Control

- **Monitor budget**: Track actual expenditures and compare with budget.
- **Tools**:
  - o Cost variance (CV) and cost performance index (CPI)
- **Actions**:
  - o Control overrun
  - o Adjust resource usage
  - o Revise cost estimates as necessary

4. Scope Verification and Control

- **Scope Monitoring**: Ensure deliverables meet requirements and are completed as planned.
- **Actions**:
  - o Validate completed deliverables
  - o Prevent scope creep
  - o Manage change requests

5. Quality Control

- **Ensure standards**: Check if project deliverables meet the quality standards defined in the plan.
- **Tools**:
  - o Quality audits
  - o Control charts
  - o Inspection/testing
- **Actions**:
  - o Address defects
  - o Implement corrective/preventive actions

6. Risk Monitoring and Control

- **Track known risks**: Monitor identified risks and their mitigation strategies.
- **Identify new risks**: Continuously assess and log new potential risks.
- **Actions**:
  - o Update risk register
  - o Implement risk response plans

7. Change Control

- **Manage change requests**: Evaluate, approve/reject, and implement changes to the project scope, schedule, or budget.

- **Change Control Board (CCB)**: May be involved in decision-making.
- **Maintain change log**

8. Issue Management

- **Track issues**: Record, prioritize and resolve issues that arise.
- **Maintain issue log**
- **Assign owners and deadlines**

9. Communication Management

- **Regular reporting**: Stakeholders are informed of project status, risks, and changes.
- **Meetings**: Daily stand-ups, weekly reviews, and stakeholder briefings.
- **Tools**: Email, project dashboards, reports

10. Procurement Monitoring

- **Manage vendor contracts and performance**
- **Ensure deliverables and timelines are met**

11. Integration Control

- **Ensure all components** of the project work together and that changes in one area do not adversely impact others.
- **Coordinate activities** across knowledge areas and teams.

Monitoring & Control is iterative and continuous.

It feeds into **Project Execution** (to correct course) and into **Project Closing** (to confirm that everything was completed as planned).

PERT (Program Evaluation and Review Technique) and **CPM (Critical Path Method)** do contribute significantly to the Monitoring and Control phase of project management.

PERT and CPM Contribute to Monitoring & Control with

1. Schedule Monitoring

- **CPM** helps identify the **critical path**—the longest sequence of dependent activities—so that project managers know which tasks directly affect the project completion date.
- **PERT** is useful in projects with uncertainty by providing **three time estimates**: optimistic, most likely, and pessimistic. This helps in **assessing schedule risk** and planning contingencies.

In Monitoring & Control:

- *You track whether critical path tasks are on schedule.*
- *For PERT, you compare actual durations to the expected durations to detect risks early.*

2. Performance Analysis

- Both methods help calculate **Schedule Variance (SV)** and **Schedule Performance Index (SPI)**.
- These indicators help project managers know whether they are ahead, behind, or on track.

3. Identifying Delays and Bottlenecks

- CPM pinpoints where delays can and **cannot** be tolerated (float/slack analysis).
- This is crucial for **reallocating resources** or fast-tracking activities to stay on schedule.

4. Forecasting

- PERT allows for **probabilistic forecasting** of project completion dates, which aids in **risk-based decision-making**.
- Useful during monitoring to reassess deadlines or milestones based on new data.

5. Control Actions

- When a delay is detected or a schedule deviation, PERT/CPM helps decide:
  - o Which tasks to **crash** (shorten duration by adding resources).
  - o Which tasks can be **fast-tracked** (done in parallel).
  - o Where you have **float** to absorb delays without affecting the end date.

Illustration:

Let's say we are monitoring a software development project:

- **CPM chart** shows that Task A, B, C are on the critical path.
- Task B is running 5 days late.
- Monitoring shows no float (slack), so the whole project is now delayed.
- You evaluate options: Can Task C be fast-tracked? Can Task B be crashed?

PERT and CPM provide the **analytical backbone** of schedule monitoring and control. They help project managers:

- Focus on the most impactful tasks
- Predict outcomes
- Take corrective action early

Gantt Charts are powerful tools that contribute significantly to the Monitoring and Control phase of project management. While they are more visual and less analytical than PERT/CPM, they offer practical benefits that make them essential for real-time tracking and communication.

Gantt Charts Support Monitoring and Control

1. **Visual Timeline Tracking**

- Gantt charts provide a **visual representation** of the project schedule over time.
- You can **easily compare planned vs actual progress**.
- Color coding or progress bars show task completion in real time.

2. **Milestone Monitoring**

- Gantt charts allow you to define and monitor **milestones** (e.g., phase completions, review points).
- Helpful in quickly identifying delays in reaching critical points.

3. **Dependency Management**

- You can visualize **task dependencies** (e.g., finish-to-start).
- This helps identify **ripple effects** of delays (if Task A is late, Task B is affected).
- Useful in **predicting and controlling delays**.

4. **Resource and Workload Monitoring**

- Some advanced Gantt tools (like MS Project or Primavera) show **who is working on what** and whether anyone is **overloaded or underused**.
- Enables better **resource reallocation** as part of corrective actions.

5. **Progress Monitoring**

- Tasks can show % completion.
- Easy to spot which tasks are behind, on time, or ahead of schedule.
- Supports **Earned Value Management** by correlating time and cost data.

6. **Change Impact Visualization**

- When a change is made (e.g., new timeline or task added), you can immediately see:
    - o How it affects the overall schedule
    - o Which tasks will shift
    - o Whether the deadline is impacted

7. **Stakeholder Communication**

- Gantt charts are excellent for **communicating progress** to stakeholders.
- Clear and intuitive—even non-technical stakeholders understand them.

Example in Practice:

You're managing a construction project:

- Gantt chart shows that **electrical work** is 20% behind schedule.
- You see that **plumbing** (dependent on electrical) will be delayed.
- You reschedule or assign more workers to electrical to bring it back on track.

Summary of Gantt chart Contributions

Monitoring Function	Gantt Chart Capability
Schedule tracking	Visual progress tracking
Milestone control	Clear milestone view
Task dependencies	Shows links between tasks
Change impact analysis	Visual timeline shifts
Communication	Easy to present status
Forecasting	Limited (not probabilistic like PERT)

Gantt charts are **essential for day-to-day monitoring and communication**, complementing more analytical tools like **PERT and CPM**. They're especially valuable for **spotting problems early and adjusting proactively**.

Task Name	Start Date	End date	Duration (Days)	% Complete	1-Apr	2-Apr	3-Apr	4-Apr	5-Apr	"------"-
Requirement Gathering	1st April	3rd April	3	100						
Design Phase	3rd April	5th April	3	60						
Development	6th April	10th April	5	20						
Testing	11th April	13th April	3	0						
legend		task in progress								
		Not started								

PERT CPM and Gantt Charts are all important for project monitoring and control but specifically applied under following situations:

Situation	Tools
High uncertainty and research-based work	**PERT**
Time-driven, structured projects with clear dependencies	**CPM**
Day-to-day progress tracking and stakeholder updates	**Gantt Chart**
Large projects with overlapping tasks	**CPM + Gantt**

Suggestions:

This lesson could be used as an aid to teaching on project management tools in study notes. Concept of the topic is vital for any project manager of a business unit. These discussions are in addition to knowledge imparted by study guide. For Proper understanding read supplementary readings by referring Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson, Productions and Operations management by R.B. Khanna & Quantitative Techniques in Management by N. D. Vora.

Best Wishes.

Topic

Module 1 : Accounting for Shares and Debentures

Module 8: Auditing of Different Types of Undertakings

INTERMEDIATE

Group II - Paper-10

Corporate Accounting and Auditing (CAA)

Section A: Corporate Accounting
Topic: Redemption of Preference Shares

- **Multiple Choice Questions**

1. Sections 80 and 80 A of the Companies Act provide for the issue and redemption of

   A. equity shares

   B. redeemable preference shares

   C. debentures

   D. bonds

2. Redemption of preference shares must be authorized by

   A. the board of directors

   B. the articles of the company

   C. court order

   D. ordinary resolution

3. The amount utilized from reserves for the purpose of redemption o preference shares should be transferred to

   A. capital reserve

   B. capital redemption reserve

   C. general reserve

   D. none of these

4. In India, the maximum term for issuing redeemable preference shares is normally

   A. 20 years

   B. 10 years

   C. 5 years

   D. none of these

5. Amount due to "untraceable shareholders" may be

   A. transferred to P&L A/c

   B. kept as general reserve

   C. transferred to CRR

   D. shown as "Current Liabilities" in the balance sheet

6. Transfer to capital redemption reserves cannot be made from

   A. general reserve

   B. unrealized capital reserve

   C. P&L A/c

   D. none of these

7. Premium on redemption of preference shares shall be met out of

   A. CRR

   B. Statutory Reserves A/c

   C. capital reserve

   D. securities premium A/c

Answer:

1 – B; 2 – B; 3 – B; 4 – A; 5 – D; 6 – B; 7 – D.

- **Comprehensive Problem**

Illustration 1

X Ltd. has an issued share capital of 1,300 9% redeemable preference shares of ₹ 100 each and 45,000 equity shares of 10 each. The preference shares are redeemable at a premium of 10% on 1 April 2024.

The summarized balance sheet of the company as on 31 March 2024 was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	6,50,000
1,300 9% Redeemable Preference Shares of ₹100 each Fully Paid	1,30,000	Investments	37,000
45,000 Equity Shares of ₹10 Each Fully Paid	4,50,000	Bank	63,000
Profit & Loss Balance (cr.)	80,000		
Sundry Creditors	90,000		
	7,50,000		7,50,000

To cany out the redemption of preference shares, the Company decided:

(i) To sell all investments at ₹30,000

(ii) To finance part of the company from company funds, subject to leaving a balance of ₹23,000 in the P&LA/c

(iii) To issue sufficient equity shares of Rs. 10 each at a premium of 20% per share to raise the balance of funds required

The preference shares were redeemed on due date and the issue of equity shares was fully subscribed.

You are required to pass the necessary journal entries to record the above transactions and prepare the Bank A/c after the redemption is completed.

Solution:

		₹
Determination of equity shares to be issued:		₹
Profit & Loss A/c (As shown in balance sheet)		80,000
Less: Loss on sale of investments (37,000 – 30,000)	7,000	
Amount to be retained in the company	23,000	30,000
Amount to be transferred to CRR =		50,000
Nominal amount of equity shares to be issued: (1,300 × ₹ 100 – ₹ 50,000) =		80,000

∴ Number of shares to be issued = 80,000/ 10 = 8,000

X Ltd.

Journal Entries

Date	Particulars		L.F	Dr. (₹)	Cr. (₹)
1st April 2024	Bank A/c	Dr.		30,000	
	Profit & Loss A/c	Dr.		7,000	
	To Investments A/c				37,000
	(Being sale of Investments and Loss On Sale is Transferred to P&L A/c)				
1st April 2024	Bank A/c	Dr.		96,000	
	To Equity Share Capital A/c				80,000
	To Securities Premium A/c				16,000
	(Being issue of 8,000 Equity of ₹10 Each at a Premium of ₹2 Per Share)				
1st April 2024	Profit & Loss A/c	Dr.		50,000	
	To Capital Redemption Reserve A/c				50,000
	(Being amount Available for Transfer to CRR)				
1st April 2024	9% Redeemable Preference Share Capital A/c	Dr.		1,30,000	
	Premium On Redemption A/c	Dr.		13,000	
	To Redeemable Pref. Shareholders A/c				1,43,000
	(Being amount for Redemption Transferred to Preferences Shareholders)				
1st April 2024	Securities Premium A/c	Dr.		13,000	
	To Premium on Redemption A/c				13,000
	(Being Premium on Redemption Charged to Securities Premium A/c)				
1st April 2024	Redeemable Preference Shareholders A/c	Dr.		1,43,000	
	To Bank A/c				1,43,000
	(Being Payment to Preference Shareholders on Redemption)				

Dr. **Bank A/c** **Cr.**

Particulars	₹	Particulars	₹
To Balance B/d	63,000		
To Investment	30,000	By Redeemable Preference Shareholder A/c	1,43,000
To Equity Share Capital A/c	80,000	By Balance c/d	46,000
To Securities Premium A/c	16,000		
	1,89,000		1,89,000
To Balance B/d	46,000		

Section B: Auditing

Topic: Auditing of Different Types of Undertakings

Question: Mr. C has been appointed as the auditor of Hotel Hindustan. Briefly discuss the important points to be checked as the auditor of the hotel.

Answer:

The auditor must take into consideration the following important points while planning for an audit of a hotel:

1. Internal control: The auditor should first review the internal control system of the hotel. He should ensure himself that there exists an effective internal control and for this purpose, he should evaluate the following:

(a) Effective control over receipts and disbursement of cash.

(b) Purchase procedure and stocking of various commodities and provisions.

(c) Effective billing procedures for the customers.

2. Cash collections: Controlling cash assumes a lot of importance in any hotel. The auditor should reconcile the total sales reported with the total bills issued to customers. Billing may be done room-wise as well as customer-wise. The auditor should see bills are properly numbered and counterfoil of all bills issued do exist.

3. Stocks: The stocks in any hotel are both portable and saleable particularly the food and beverage stock. As a result, there is possibility of manipulation. Hence, it is extremely important that all movements and transfer of stocks are properly documented. In this context the following must be ensured.

(a) Control over movements: The stocks must be kept in lock and key and must be under the supervision of the departmental manager. The auditor should see that the movements of goods in or out of the stores are properly authorized and appropriately recorded.

(b) Control over valuation: Although valuation of stocks is made by the experts appointed by the management, it is important that the auditor satisfies himself that the amount included for such stocks are reasonable. The auditor may attend the physical stock verification and may recalculate certain prices.

4. Fixed assets: The accounting of fixed assets is likely to differ from hotel to hotel. For example, some hotels may consider its utensils as a stock item while others may treat it as fixed assets. A comprehensive definition of the stock should be there and the auditor should see whether the same has been clearly followed or not. Regarding auditing of fixed assets, the auditor should ensure himself that—

(a) All the fixed assets are physically verified and appropriately valued at the end of each accounting period, and

(b) Adequate provisions have been made for depreciation on all fixed assets for the accounting year at the rates decided as per the accounting policy.

5. Compliance with statutory provisions: A hotel needs to comply with a number of statutory provisions in running its business. The hotel must follow the rules of the concerned state and the municipality under which it is covered. Additionally a hotel needs to follow the following rules:

(a) Foreign exchange regulatory authority: In large hotels, it is very common to have facility of exchanging foreign currency into Indian Rupees. There are provisions for foreign exchange transactions.

(b) Department of tourism: The Department of Tourism also prescribes various conditions to be fulfilled by the hotels.

(c) Local authority: Approval of the local authority and license are required for running hotel business. The auditor should see that various applicable regulations and conditions are duly complied with by the hotel.

6. Other Points: In addition to the above specific points, the auditor should also ensure the following:

(a) Vouching of receipt and payments must be done carefully.

(b) Preparation of taxable income should be checked.

(c) Deposit of entertainment tax and sales tax must be verified.

Topic

Module 7 :
Financing Decisions of a Firm

Module 10 :
Data Presentation: Visualisation and Graphical Presentation

INTERMEDIATE

Group II - Paper-11

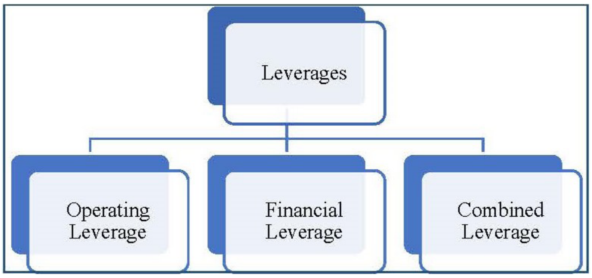
Financial Management and Business Data Analytics (FMDA)

Subject: Financial Management and Business Data Analytics

Financial Management

Leverage Analysis

Leverage analysis in financial management involves assessing the impact of debt on a company's financial performance and risk profile. It helps determine how much debt a company uses to finance its assets, and how this affects its profitability, earnings per share, and overall financial health.



(i) **Operating Leverage**: Operating leverage refers to the extent to which a company uses fixed costs in its operations. The effect of sales on EBIT is measured by **Operating Leverage**. When sales increases, fixed cost will remain the same respective of level of output, and so the percentage increases in EBIT will be higher than increase in sales. This is the favorable effect of operating leverage. When sales decrease the reverse process will be applicable and hence, the percentage decrease in EBIT will be higher than decrease in Sales. This is the Adverse effect operating leverage. Operating leverage is thus a function of three factors: (i) Sales volume (quantity) (ii) Contribution per unit and (iii) fixed costs.

Degree of Operating Leverage (DOL)

$$= \frac{\text{\% Changes in EBIT}}{\text{\% Chnages in Sales}} \quad \textbf{Or} = \frac{\text{Contribution}}{\text{EBIT}}$$

(ii) **Financial Leverage**: Financial leverage refers to the extent to which a company uses debt in its capital structure. Financial leverage occurs when a company has a debt content in its capital structure and fixed financial charges (Interest on debentures). They are fixed irrespective of level of EBIT. When EBIT increases, the interest payable on debt remains constant, therefore residual earnings available to equity shareholders will also increase more than proportionately.

Degree of Financial Leverage (DFL)

$$= \frac{\text{\% Changes in EPS}}{\text{\% Changes in EBIT}} \quad \textbf{Or} \; = \frac{\text{EBIT}}{\text{EBT}}$$

(iii) Combined Leverage: This is the combined impact of both operating and financial leverage on a company's profitability. It measures the total risk of a firm i.e., Operating Risk and Financial Risk.

Degree of Combined Leverage

$$= \frac{\text{\% Changes in EPS}}{\text{\% Chnages in Sales}}$$

$$\textbf{Or} = \frac{\text{Contribution}}{\text{EBT}}$$

Or = DOL × DFL

Example 1

The details data are extracted from XYZ Ltd.

Sales (@100 per unit)	₹ 24,00,000
Variable Cost	50%
Fixed Cost	₹ 10,00,000

It has borrowed Rs. 10,00,000 @ 10% p.a. and its equity share capital is Rs. 10,00,000 (Rs. 100 each). Consider tax rate is 50 %.

You are required to calculate:

(i) Operating Leverage

(ii) Financial Leverage

(iii) Combined Leverage

(iv) Return on Investment

(v) If the sales increases by ₹6,00,000; what will the new EBIT?

Solution:

Particulars	₹
Sales	24,00,000
Less: Variable cost	12,00,000
Contribution	12,00,000
Less: Fixed cost	10,00,000
EBIT	2,00,000
Less: Interest	1,00,000
EBT	1,00,000
Less: Tax (50%)	50,000

EAT	50,000
No. of equity shares	10,000
EPS	5

Operating Leverage = $\frac{₹\ 12,00,000}{₹\ 2,00,000}$ = 6 times

Financial Leverage = $\frac{₹\ 2,00,000}{₹\ 1,00,000}$ = 2 times

Operating Leverage = $\frac{₹\ 12,00,000}{₹\ 2,00,000}$ = 6 times

Combined Leverage = DOL × DFL = 6×2 = 12 times.

ROI = $\frac{₹\ 50,000}{₹\ 1,00,000}\times 100 = 5\%$

Here ROI is calculated as ROE,

i.e. = $\frac{\text{EAT-Pref.Dividend}}{\text{Equity shareholders' fund}}$

Degree of Operating Leverage = 6

$= \frac{\%\text{ of Changes in EBIT}}{\%\text{ of Changes in Sales}} = \frac{\%\text{ of Changes in EBIT}}{25\%}$

=1.5

% Changes in EBIT = 1.5

Increase in EBIT = ₹2,00,00 × 1.5 = ₹3,00,000

Example 2

Param Ltd. Ltd. has the following balance sheet and income statement information:

Balance Sheet as on March 31st 2025

Liabilities	₹	Assets	₹
Equity capital (₹10 per share)	8,00,000	Net fixed assets	10,00,000
10% Debt	6,00,000	Current assets	9,00,000
Retained earnings	3,50,000		
Current liabilities	1,50,000		
	19,00,000		19,00,000

Income Statement for the year ending March 31st 2025

Particulars	₹
Sales	3,40,000
Operating expenses (including Rs. 60,000 depreciation)	1,20,000
EBIT	2,20,000
Less: Interest	60,000
Earnings before tax	1,60,000
Less: Taxes	56,000
Net Earnings (EAT)	1,04,000

You are required to determine the degree of operating, financial and combined leverages at the current sales level, if all operating expenses, other than depreciation, are variable costs.

If total assets remain at the same level, but sales (i) increase by 20% and (ii) decrease by 20%, Compute the earnings per share at the new sales level?

Answer:

Calculation of Degree of Operating (DOL), Financial (DFL) and Combined leverages (DCL):

Degree of Operating Leverage (DOL)

$= \frac{₹3,40,000 - ₹60,000}{₹\ 2,20,000} = 1.27$

Degree of Financial Leverage (DFL)

$= \frac{₹\ 2,20,000}{₹\ 1,60,000} = 1.38$

DCL = DOL ×DFL = 1.27×1.38 = 1.75

	Increase by 20%	Decrease by 20%
	(₹)	(₹)
Sales level	4,08,000	2,72,000
Less: Variable expenses	72,000	48,000
Less: Fixed cost	60,000	60,000
Earnings before interest and taxes	2,76,000	1,64,000
Less: Interest	60,000	60,000
Earnings before taxes	2,16,000	1,04,000
Less: Taxes	75,600	36,400
Earnings after taxes (EAT)	1,40,400	67,600
Number of equity shares	80,000	80,000
EPS	1.76	0.85

Working Notes:

(i) Variable Costs = ₹ 60,000 (Total cost - depreciation)

(ii) Variable Costs at:

(a) Sales level, ₹4,08,000 = ₹72,000 (increase by 20%)

(b) Sales level, ₹2,72,000 = ₹48,000 (decrease by 20%)

Multiple Choice Questions

1. Financial leverage may be defined as:

   (a) Use of funds with a product cost in order to increase earnings per share.

   (b) Use of funds with a contribution cost in order to increase earnings before interest and taxes.

   (c) Use of funds with a fixed cost in order to increase earnings per share.

   (d) Use of funds with a fixed cost in order to increase earnings before interest and taxes.

   Answer: **(c)**

2. A Company produces and sells 10,000 T -Shirts. The selling price per shirt is ₹500. Variable cost is ₹200 per T-Shirt and fixed operating cost is ₹25,00,000. What is the operating leverage of the company?
   (a) 4 Times
   (b) 6 Times
   (c) 7 Times
   (d) 8 Times

   Answer (b)

3. Following data is available for Beta Ltd.

Financial Leverage	2:1
Operating Leverage	3:1
Interest Charges p.a.	₹ 20 Lakhs
Corporate Tax	40%
Variable cost (% of Sales)	60%

   Sales volume will be:
   (a) ₹ 1,00,00,000
   (b) ₹ 1,50,00,000
   (c) ₹ 2,00,00,000
   (d) ₹ 3,00,00,000

   Answer (d)

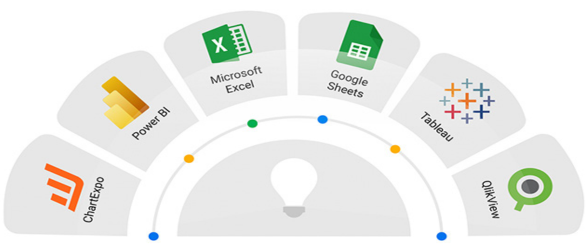
4. A firm has a DOL of 6 at a certain production level. If sales of the firm rise by 1%, it implies that:
   (a) EBIT will also rise by 1%.
   (b) EBIT will also rise by 1/6%.
   (c) EBIT will also rise by 6%.
   (d) Change of EBIT is undecided

   Answer (c)

Data Analytics (Data Visualisation Tools and Techniques)

Data Analytics (Data Visualisation Tools and Techniques)

Data visualization translates complex data sets into visual formats that are easier for the human brain to understand.



Data Visualization Tools

Importance of Data Visualisation

(i) **Simplifies the Complex Data**: Large and complex data sets can be challenging to understand. Data visualization helps break down complex information into simpler, visual formats making it easier for the users to grasp.

(ii) **Enhances Data Interpretation:** Visualization highlights patterns, trends, and correlations in data that might be missed in raw data form. This enhanced interpretation helps in making informed decisions.

(iii) **Saves Time**: It is definitely faster to gather some insights from the data using data visualization rather than just studying a chart.

(iv) **Improves Communication**: Visual representations of data make it easier to share findings with others especially those who may not have a technical background. This is important in business where stakeholders need to understand data-driven insights quickly.

(v) **Data Visualization Tells a Data Story:** Data visualization is also a medium to tell a data story to the viewers. The visualization can be used to present the data facts in an easy-to-understand form while telling a story and leading the viewers to an inevitable conclusion.

Tools of Data Visualisation

(i) **Charts**: Bar charts, line charts, pie charts, etc.

(ii) **Graphs**: Scatter plots, histograms, etc.

(iii) **Maps**: Geographic maps, heat maps, etc.

(iv) **Dashboards**: Interactive platforms that combine multiple visualizations.

How Power BI works with Excel?

Power BI can work with Excel data in a few ways: by importing Excel files into Power BI Desktop, connecting to Excel files in the Power BI service, or analyzing Power BI datasets within Excel.

Steps

Step 1: Importing Excel files into Power BI Desktop:

- **Open Power BI Desktop:** Launch the Power BI Desktop application.
- **Get Data:** On the home screen, select «Get data» or go to the «Home» tab and select «Get data».
- **Select Excel:** Choose «Excel Workbook» from the available data sources.
- **Browse and Select:** Browse to the location of your Excel file and select it.
- **Preview and Select Tables:** Power BI will display a preview of the data in your Excel file, including the tables. Select the tables you want to import.
- **Load:** Click «Load» to import the data into Power BI Desktop.
- **Prepare and Build Report:** Once the data is loaded, you can use the Power BI features to clean, transform, and model the data, then create visualizations and reports.

Step 2: Connecting to Excel files in the Power BI service:

- **Open Power BI Service:** Access the Power BI service online.
- **Create a New Semantic Model:** In your workspace, select «New item» > «Semantic model».
- **Connect to Excel:** Choose «Excel» as the data source.
- **Upload or Connect:** You can either upload an Excel file directly or connect to an Excel file stored in OneDrive or SharePoint.
- **Select Data:** Choose the tables you want to use from the Excel workbook.
- **Build Report:** Power BI will create a report based on the selected data. You can then build visualizations and dashboards.

Step 3: Analyzing Power BI datasets within Excel (using Analyze in Excel):

- **Open a Power BI Report:** Navigate to the Power BI report you want to analyze in Excel.
- **Select "Analyze in Excel":** In the Power BI service, find the «Export» option and select «Analyze in Excel».
- **Open in Excel:** A new Excel workbook will be created and opened in Excel for the web (or downloaded if you don›t have a OneDrive account).
- **Enable Power BI Query:** Confirm the Power BI query in Excel and enable the data refresh.
- **Create PivotTables:** Use the Power BI data in Excel by creating PivotTables to analyze the data.

Topic

Module 9 : Responsibility Accounting

Module 10 : Decision Theory

INTERMEDIATE

Group II - Paper-12

Management Accounting (MA)

Module 9: Responsibility Accounting

Responsibility Accounting: An Overview

Responsibility accounting is a management system that assigns specific duties to distinct segments within an organization and tracks their performance. Each segment, referred to as a responsibility centre, is evaluated based on outcomes aligned with its assigned authority. Responsibility centres are classified into cost, revenue, profit, or investment centres. Each is given a tailored budget, and its manager's performance is assessed by how actual outcomes compare to budgeted expectations. This approach encourages decentralized decision-making and promotes efficiency by placing accountability at appropriate organizational levels. Frequent feedback and communication are integral to its success. Although it aligns departmental efforts with organizational goals, responsibility accounting may sometimes cause sub-optimization—where individual units focus on their targets at the expense of the overall company. Nonetheless, it remains an effective performance and control mechanism.

Key Control Functions of Responsibility Accounting

Responsibility accounting enables five key managerial control functions:

- **Planning**: Establishes goals through budget preparation, sets clear expectations, and delegates roles accordingly.
- **Data Gathering**: Collects and categorizes actual performance data relative to the plan, enabling systematic monitoring.
- **Monitoring Variances**: Regularly compares actual performance with budgeted figures, spotlighting areas needing attention.
- **Managerial Influence**: Encourages investigation of major variances, identification of underlying issues, and implementation of corrective measures. Reports aid higher-level managers in reviewing unit-level performance.
- **Continuous Comparison and Response**: Promotes a cycle of constant review, feedback, and adjustments to align operations with goals.

Assumptions Underlying Responsibility Accounting

Responsibility accounting operates on several fundamental assumptions:

- Areas of responsibility are clearly defined, and managers are held accountable for specific functions.
- Managers are only accountable for outcomes within their control or influence.
- Managers are involved in the goal-setting and budget-planning process to ensure commitment and practicality.
- Targets set for each unit are realistic and can be achieved through sound management practices.
- Reports must contain relevant and actionable information specific to each responsibility centre.
- Managers are motivated to meet or exceed performance targets for their areas.

Responsibility Centres

Responsibility centres are organizational segments under the supervision of managers accountable for their performance. They are categorized as follows:

- **Cost Centre**: Focuses solely on controlling and reducing costs while maintaining efficiency in operations or services.
- **Revenue Centre**: Aims to boost income generation. Managers focus on enhancing sales performance within their domain.
- **Profit Centre**: Balances both revenue and cost responsibilities to ensure net profitability.
- **Investment Centre**: Manages revenues, costs, and investments. Performance is gauged using indicators like Return on Investment (ROI) and asset utilization.

Steps in Preparing a Responsibility Report

A responsibility report measures the effectiveness of a responsibility centre by comparing actual outcomes with predetermined budgets. The steps include:

1. **Identify the Responsibility Centre**: Define the unit and its scope of accountability.
2. **Collect Actual Performance Data**: Assemble current and accurate performance results.
3. **Classify Data According to Budget Categories**: Align data with relevant budget lines for meaningful comparison.
4. **Create a Performance Report**: Display actual versus planned figures clearly and comprehensively.
5. **Highlight Variances**: Pinpoint differences and determine if they are favourable or unfavourable.

6. **Explain Significant Variances**: Analyze causes behind major deviations from the plan.
7. **Distribute the Report**: Share with managers and stakeholders responsible for review and action.
8. **Evaluate Performance**: Assess how well the unit met its objectives and managed resources.
9. **Encourage Feedback and Discussion**: Enable open communication to understand results and identify improvements.
10. **Drive Continuous Improvement**: Use insights from the report to refine strategies and enhance future outcomes.

Multiple Choice Question (MCQ):

1. Responsibility accounting is primarily used to:
   a) Increase taxation revenue
   b) Assign and evaluate responsibility
   c) Replace financial accounting
   d) Control external stakeholders
2. In a profit centre, the manager is responsible for:
   a) Cost control only
   b) Revenue generation only
   c) Both revenue and cost to ensure profit
   d) Asset management
3. Which of the following best describes a cost centre?
   a) A unit responsible for investment returns
   b) A unit focused solely on generating revenue
   c) A unit responsible for managing profitability
   d) A unit that focuses on controlling expenditures
4. The comparison of actual performance to planned goals is typically documented in:
   a) Marketing reports
   b) Responsibility reports
   c) Balance sheets
   d) Feasibility studies
5. What type of responsibility centre is most concerned with ROI (Return on Investment)?
   a) Cost centre
   b) Revenue centre
   c) Profit centre
   d) Investment centre
6. Which of the following is **not** an assumption of responsibility accounting?
   a) Each area has a clear assignment of authority
   b) Managers can be held accountable for everything that happens
   c) Control reports provide relevant performance data
   d) Managers contribute to budget setting
7. A key benefit of responsibility accounting is:
   a) Centralized authority
   b) Reduced employee engagement
   c) Decentralized decision-making
   d) Elimination of budgets
8. What is typically **not** included in a responsibility report?
   a) Actual costs
   b) Budgeted figures
   c) Variances
   d) Competitor prices
9. A manager responsible for a revenue centre will likely **not** manage:
   a) Sales strategies
   b) Marketing efforts
   c) Service quality
   d) Fixed asset investments
10. Responsibility centres are structured primarily to:
    a) Facilitate external audits
    b) Track individual employee performance
    c) Align departmental efforts with organizational goals
    d) Eliminate non-controllable costs
11. Department Y incurs the following: Indirect labor ₹700, Depreciation ₹300, Allocated overhead ₹500, Direct materials ₹900. Calculate total cost as a responsibility centre (excluding direct materials).
    a) ₹ 1,500
    b) ₹1,800
    c) ₹1,300
    d) ₹1,600

12. A department has budgeted revenue of ₹25,000 and actual revenue of ₹22,500. Calculate the variance percentage.

    a) 10% unfavourable

    b) 10% favourable

    c) 12.5% favourable

    d) 12.5% unfavourable

Answer

1. b
2. c
3. d
4. b
5. d
6. b
7. c
8. d
9. d
10. c
11. c
12. a

Fill in the blanks

1. The process of comparing actual performance with budgeted performance is known as ___________.
2. A ___________ centre is accountable for costs incurred but not for revenues or investments.
3. The concept of __________ accounting is based on assigning accountability to individual managers.
4. ___________ centres are evaluated based on their ability to generate profits by managing both costs and revenues.
5. A key assumption of responsibility accounting is that performance goals should be __________ and achievable.

Answer

1. variance analysis
2. cost
3. responsibility
4. profit
5. realistic

State True or False

1. Responsibility centres can be used to evaluate managerial performance by comparing actual results to budgeted targets.
2. Cost centres are primarily responsible for maximizing investment returns.
3. A key feature of responsibility accounting is the delegation of authority to individual managers.
4. Responsibility reports are only prepared annually for long-term strategic analysis.
5. A realistic and achievable budget is essential for effective responsibility accounting.

Answer

1. True
2. False
3. True
4. False
5. True

Module 10: Decision Theory

Decision theory is a critical area of management accounting and operations research that focuses on making informed choices under varying conditions. Managers must regularly choose between alternatives in environments where outcomes may be certain, risky, or completely uncertain. This chapter explores the frameworks and tools that help decision-makers make rational, data-backed decisions in complex and dynamic business settings.

1. Introduction to Decision Theory

Decision theory is concerned with identifying the best course of action from a set of alternatives, based on possible future events or conditions. It applies mathematical and statistical models to analyze decisions. The core idea is to improve the **rationality** of choices, especially when the consequences of decisions are not fully predictable.

This theory is used across fields such as economics, psychology, politics, and management. In business, it's particularly useful in operations, investment planning, and strategic decision-making. Decision theory emphasizes **objectivity**, reducing reliance on gut feelings by using models that weigh outcomes and probabilities.

2. Types of Decision-Making Environments

Decision-making scenarios fall into three main categories based on the level of information available:

a. Decision-Making under Certainty

This is the simplest form, where the decision-maker has complete knowledge of outcomes. There is only one known state of nature, and each decision leads to a predictable result. Examples include routine business tasks like paying salaries or ordering supplies.

Certainty-based decisions often use **deterministic models**, where all variables are known and measurable. While rare in real-world business settings, they serve as foundational concepts in decision theory.

b. Decision-Making under Risk

Here, the outcomes are not known with certainty, but probabilities of their occurrence can be estimated. These probabilities may be based on past data (objective) or expert judgment (subjective). For instance, a manager may know there is a 70% chance of high demand for a product based on historical sales.

Tools like **expected monetary value (EMV)** and **decision trees** help evaluate such decisions. The goal is to choose the alternative that offers the highest expected payoff (or the least expected loss).

c. Decision-Making under Uncertainty

In this case, the decision-maker has **no reliable information** to assign probabilities to future events. The outcomes are unknown, and thus decisions are based on assumptions, judgment, and qualitative reasoning.

Various decision criteria are used to handle uncertainty:

- **Maximax**: Focuses on the best possible outcome — optimistic approach.
- **Maximin**: Focuses on the worst possible outcome — pessimistic approach.
- **Minimax Regret (Savage Criterion)**: Minimizes the maximum regret one would feel from not choosing the best option.
- **Laplace Criterion**: Assumes all outcomes are equally probable.
- **Hurwicz Criterion**: A weighted approach combining optimism and pessimism using a coefficient of optimism (α).

3. The Decision-Making Process

The general steps followed in decision-making are:

1. **Identify the Decision Problem**: Recognize what needs to be decided and what outcomes are expected.
2. **Gather Information**: Use internal and external data sources to understand the context.
3. **Identify Alternatives**: List all possible courses of action.
4. **Evaluate Alternatives**: Analyze outcomes using decision matrices, probabilities, or other models.
5. **Choose the Best Alternative**: Select the option with the most favorable expected results.
6. **Review the Decision**: Assess the outcome and revisit the decision if necessary.

4. Tools in Decision Theory

a. Payoff Table (Decision Matrix)

This tool lists alternatives in rows and states of nature (possible future conditions) in columns. The cell values represent the payoff (profit, cost, etc.) associated with each alternative under each state of nature.

b. Decision Tree

A graphical tool used to represent decisions and their possible consequences. It helps visualize complex decisions and calculate **expected values** to find the optimal path.

c. Expected Value (EV)

This is a key concept under conditions of risk. It calculates the weighted average payoff, using the probability of each state of nature as the weight. It helps select the alternative with the highest (or lowest) EV, depending on whether the goal is maximization or minimization.

Formula:

EV = Σ [P(state) × Payoff(state)]

d. Expected Value of Perfect Information (EVPI)

This measures the value of having perfect information about future states. It's calculated as the difference between the EV with perfect information and the EV of the best decision without perfect information.

EVPI = EV (with perfect info) - EV (best without info)

5. Probability Concepts in Decision-Making

- **Objective Probability**: Based on logical or statistical data, e.g., the chance of rolling a 3 on a die is 1/6.
- **Subjective Probability**: Based on judgment or belief, often used when no data is available.
- **Probability Distribution**: Lists all possible outcomes and their associated probabilities.
- **Independent Events**: The occurrence of one does not affect the other.
- **Mutually Exclusive Events**: If one occurs, the other cannot.

6. Variability and Risk Measurement

Standard Deviation and Variance

These measure the **dispersion of outcomes** from the expected value. The higher the variance, the greater the uncertainty or risk.

Coefficient of Variation (CV)

Used to compare relative risk between projects with different expected returns.

CV = Standard Deviation / Expected Value

Lower CV indicates a less risky project, even if absolute returns are high.

7. Applications and Examples

The chapter provides several business-oriented examples to illustrate the practical application of decision theory:

- A vendor choosing whether to sell ice cream or coffee based on weather predictions.
- An investor comparing projects based on expected value and standard deviation.
- A company setting prices for products under uncertain demand conditions.

These real-life scenarios show how decision theory helps in quantifying uncertainty and making systematic, data-driven choices.

8. Limitations of Decision Theory

- Probabilities may be difficult or expensive to estimate.
- Decision models may oversimplify real-world complexities.
- The approach may ignore qualitative factors like brand image or ethics.
- Assumes decision-makers are rational and risk-neutral, which may not always hold.

Conclusion

Decision theory provides structured models and tools for making logical decisions in uncertain environments. Whether it's a simple choice under certainty or a complex gamble under risk or uncertainty, this theory guides managers in evaluating alternatives, weighing outcomes, and making strategic decisions that align with business objectives. Though not perfect, it greatly enhances the **rationality, consistency, and confidence** of decision-making processes in today's dynamic and data-rich business world.

Multiple Choice Questions (MCQs):

1. Which of the following is not a type of decision-making environment?

   a) Certainty

   b) Risk

   c) Uncertainty

   d) Forecast

2. The Maximax criterion in decision theory is also known as the...

   a) Pessimistic approach

   b) Optimistic approach

   c) Minimax regret

   d) Equally likely approach

3. Which method selects the decision with the maximum of the minimum payoffs?

   a) Maximin

   b) Maximax

   c) Minimax regret

   d) Bayes' decision rule

4. If a decision-maker is risk-averse, which strategy is most suitable?

   a) Maximax

   b) Bayes

   c) Laplace

   d) Maximin

5. Which criterion uses probability distribution of states of nature?
   a) Maximin
   b) Laplace
   c) Bayes
   d) Bayes-Laplace
6. What is the first step in decision theory?
   a) Compute payoff table
   b) Identify alternatives
   c) Assign probabilities
   d) Calculate regret
7. In decision theory, opportunity loss is also called...
   a) Risk
   b) Regret
   c) Loss function
   d) Decision error
8. Which method uses the concept of expected monetary value?
   a) Hurwicz
   b) Bayes
   c) Minimax regret
   d) Laplace
9. The Hurwicz criterion is a compromise between...
   a) Maximin and Maximax
   b) Bayes and Maximin
   c) Laplace and Bayes
   d) EMV and Maximin
10. What is the coefficient of optimism usually denoted as?
   a) α (alpha)
   b) β (beta)
   c) γ (gamma)
   d) θ (theta)
11. If P1 = 0.3, P2 = 0.5, P3 = 0.2 and payoffs = [20, 30, 10], what is EMV?
   a) 23
   b) 25
   c) 22
   d) 21
12. Under Minimax regret, the decision selected minimizes the...
   a) Total loss
   b) Expected value
   c) Maximum regret
   d) Minimum payoff

Answer

1. D
2. B
3. A
4. D
5. C
6. B
7. B
8. B
9. A
10. A
11. A
12. C

Fill in the blanks

1. The decision criterion that selects the maximum of minimum payoffs is called_______.
2. Under ______ conditions, the decision-maker knows the exact state that will occur.
3. The ______ criterion assumes all states of nature are equally likely.
4. The Hurwicz approach is a compromise between ______ and ______.
5. The coefficient of optimism in Hurwicz criterion is denoted by ______.

Answer

1. Maximin
2. Certainty
3. Laplace
4. Maximin and Maximax
5. Alpha

State True or False

1. The Maximax criterion is ideal for pessimistic decision-makers.
2. Laplace criterion assumes all states are equally probable.
3. Bayes decision rule can be used without knowing the probabilities.
4. Maximin is a conservative decision rule.
5. Hurwicz criterion blends optimism and pessimism.

Answer

1. False, 2. True, 3. False, 4. True, 5. True

CMA FINAL COURSE

Syllabus 2022

Topic

Module 11 : Laws and Regulations related to Anti-Money Laundering

FINAL

Group III - Paper-13

Corporate and Economic Laws (CEL)

The Prevention of Money Laundering Act (PMLA) of 2002: an overview

INTRODUCTION

The PMLA, or Prevention of Money Laundering Act of 2002, To combat the crime of legalizing income or profits obtained illegally, the Prevention of Money Laundering Act, 2002 (PMLA) was passed. Property earned from illegally obtained funds may be seized by the government or public body under the Prevention of Money Laundering Act, 2002. To put it simply, money laundering is the process of turning money obtained unlawfully into money that is legitimate.

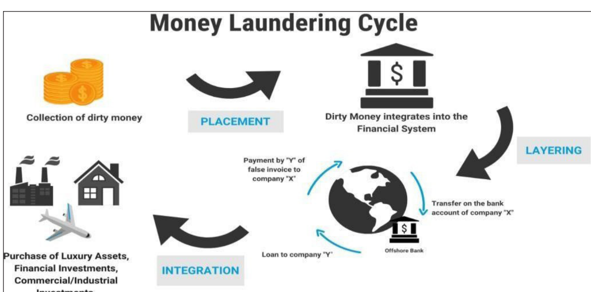
BACKGROUND OF THE ACT

Before the enactment of the Prevention of Money Laundering Act (PMLA) in 2002, several existing laws dealt with money laundering, including the Income Tax Act, Conservation of Foreign Exchange & Smuggling Activities Act, Smugglers and Foreign Exchange Manipulators Act, Benami Transactions (Prohibition) Act, and others. These laws addressed aspects of money laundering like attachment, confiscation, and forfeiture of assets related to crime but these acts were not so

Comprehensive.

The Prevention of Money Laundering Act (PMLA) of 2002 was enacted in India to combat money laundering and to provide for confiscation of property derived from, or involved in, money laundering. It shows India's commitment to international efforts to combat money laundering, including international agreements and initiatives like the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and the Financial Action Task Force (FATF) recommendations. The PMLA came into force on July 1, 2005.

MONEY LAUNDERING: WHAT?



The process by which an illicit fund, such as black money, is acquired through illicit means and disguising itself as legitimate funds before being presented as white money is known as money laundering. To become lawful, the money is sent through a number of channels or stages of conversions and transfers before arriving at a bank or other legally recognized organization.

OBJECTIVES OF THE ACT:

To address the problem of money laundering, the Prevention of Money Laundering Act, 2002, was introduced. Among its goals are the following:

Stop the laundering of money. Stop or stop money from being used for economic crimes and illicit activities

Allow for the confiscation of items used in, or resulting from, money laundering.

Punish those who commit money laundering offenses. Designating an appellate tribunal and adjudicating authority to handle money laundering cases.

Address issues related to and incidental to money laundering activities.

1. **GEOGRAPHICAL RELEVANCE OR TERRITORIAL APPLICABILITY :**

   Applies to India as a whole. Applies to all Indian nationals living overseas as well as foreigners engaged in money laundering activities that have an impact on India.

2. **WHO's PROTECTED?**

   The Act covers a broad spectrum of people and organizations, such as: Individuals

   Organizations Partnership businesses Assurances NGOs (under some circumstances) Financial institutions and banks Stockbrokers, real estate brokers, and precious metal merchants are examples of intermediaries.

3. **OFFENCES COVERED :**

   Only when the "scheduled offence" is committed does the Act come into play. These offenses are included in the PMLA Schedule and include: Trafficking in drugs The act of terrorism Trafficking in persons Corruption Forgery and fraud Evasion of taxes (certain situations) Cybercrime, including specific offenses. Recently, environmental offenses have been included.

4. **ACTIVITIES COVERED:**

   The following activities are covered under the

PMLA's scrutiny: concealing the proceeds of crime Possession, purchase, or application of such earnings portraying them as pure assets (money laundering)

5. REQUIREMENTS FOR SPECIFIC ORGANISATION :

Banks, mutual funds, insurance companies, and other organizations must: Keep track of all transactions. Maintain and confirm the clients' identities (KYC) Notify the Financial Intelligence Unit-India (FIU-IND) of any suspicious transactions.

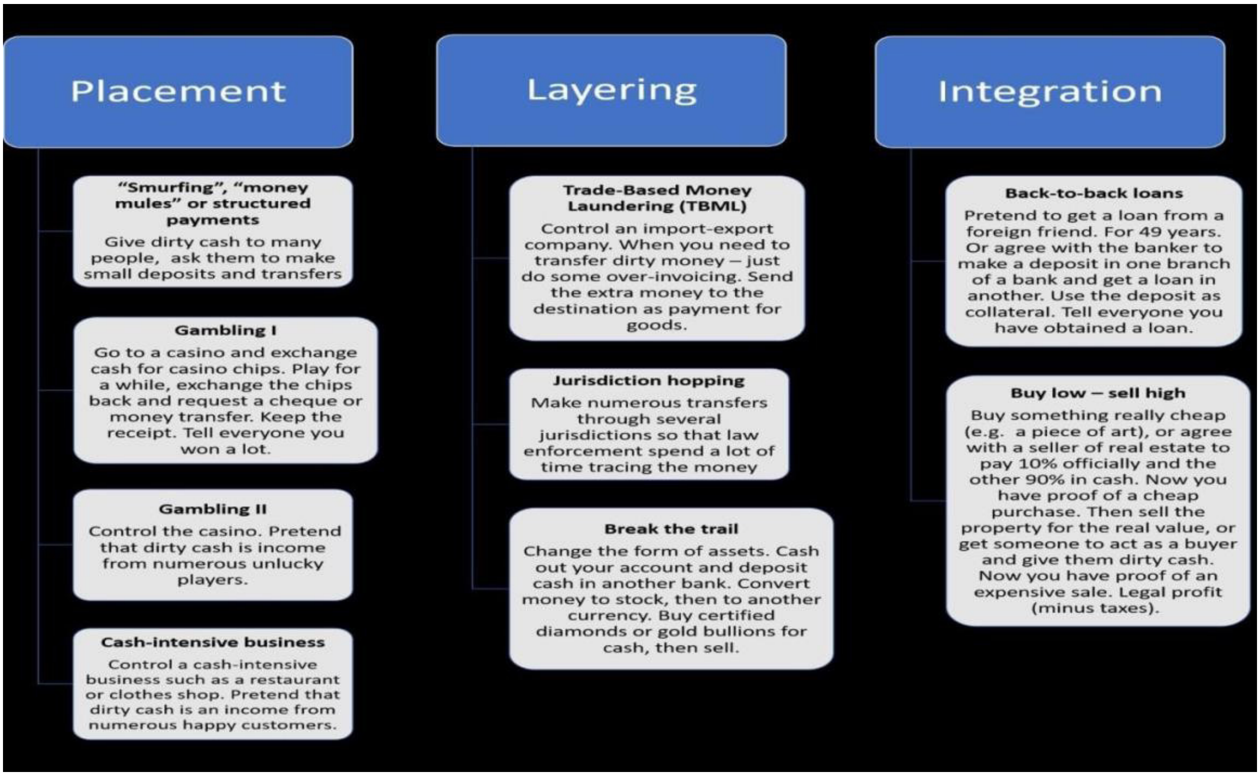
1. Targets the money laundering process involving criminal funds associated with the scheduled offences specified in the Act.
2. Gives authorities the authority to investigate, attach, seize, and confiscate assets engaged in money laundering, primarily the Enforcement Directorate.
3. Offers severe jail time and fines as punishment for money laundering.
4. Contains clauses pertaining to international cooperation in the tracking down and retrieval of criminal proceeds.
5. Guarantees adherence to the need to keep records and report suspicious transactions by financial institutions, intermediaries, and reporting entities.

COMMON FORMS OF MONEY LAUNDERING:

Below are some of the common methods of money laundering:

Hawala.	Round-tripping	Gambling
Bulk cash smuggling Fictional loans	Trade-based laundering Shell companies and trusts	Fake invoicing
Cash-intensive businesses	Real estate	

METHODS OF MONEY LAUNDERING :



OVERVIEW OF PROVISIONS UNDER THE ACT :

Following are the key provisions and sections under the Prevention of Money Laundering Act, 2002 (PMLA)in India:

1. **Section 2 – Definitions**
   - Defines important terms like money laundering, proceeds of crime, scheduled offence, reporting entity, etc.

2. **Section 3 – Offence of Money Laundering**

- Money Laundering : It means directly or indirectly attempting to indulge or**knowingly** assisting or being involved in any activity connected with the proceeds of crime, including its concealment, possession, acquisition, or use, and projecting or claiming it as untainted property.
- Proceeds of Crime: Any property derived or obtained directly or indirectly by any person as a result of criminal activity relating to a scheduled offense.
- Scheduled Offense: These are offenses listed in the Schedule to the Act, classified into three parts (Part A, Part B, and Part C), and include offenses under the Indian Penal Code, NDPS Act, Arms Act, etc.

3. **Section 4 – Punishment**

- **Rigorous imprisonment for a term not less than 3 years, which may extend up to 7 years.**
- In certain cases (like offenses under the NDPS Act), imprisonment may extend up to 10 years.
- A fine may also be imposed.

4. **Section 5 – Provisional Attachment**

- The Enforcement Directorate (ED)can attach property suspected to be involved in money laundering for 180 days.

5. **Section 8 – Adjudication**

- After investigation, the Adjudicating Authority confirms the attachment if satisfied that it's related to money laundering.

6. **Section 17 – Search and Seizure**

- Authorities can search premises and seize property/documents related to- money laundering without prior notice.

7. **Section 18 – Search of Persons**

- ED can search a person if they suspect them of carrying money or documents related to money laundering.

6. **Section 19 – Arrest**

- Authorities have the power to arrest a person if they have reason to believe they're guilty under the Act.

7. **Section 20–21 – Retention of Property/Documents**

- Seized property or records can be kept for a certain period after recording reasons.

8. **Section 24 – Burden of Proof**

- The burden is on the accused to prove that the assets are not involved in money laundering.

9. **Section 44 – Trial of Offences**

- Special courts try both the scheduled offence and the money laundering offence together.

10. **Section 50 – Powers of Authorities**

- ED officers have powers like summoning, production of documents, similar to a civil court.

11. **Section 63 – Penalty for False Information**

- Penalties for providing false information or refusing to cooperate with authorities.

AUTHORITIES UNDER THE ACT :

1. **Financial Intelligence Unit – India (FIU-IND) Section 12**

The primary organization in charge of receiving, processing, evaluating, and sharing information on questionable financial transactions with other law enforcement organizations is FIU-IND. As a nationwide organization, FIU-IND fights money laundering.

2. **Directorate of Enforcement (ED) Section 48**

The main organization in charge of looking into and implementing the PMLA's requirements is the Directorate of Enforcement (ED). It has the authority to seize assets linked to money laundering and start the process of confiscating them. Money laundering cases are also looked into and prosecuted by the ED.

3. **Adjudicating Authority Section 8**

Description: Cases pertaining to property attachment under the PMLA are decided by the Adjudicating Authority. It determines whether the property should be seized or released and whether it is implicated in money laundering. Decisions for property attachment or confiscation are made by the adjudicating authority.

4. **Appellate Tribunal Section Section 25:**

Appeals against decisions made by the Adjudicating Authority are heard by the AppellateTribunal. A person may file an appeal with the Appellate Tribunal if they feel wronged by theAdjudicating Authority's ruling. This Tribunal guarantees that appeals concerning the attachment, seizure, or release of property are handled fairly and legally.

5. **Special Court**

To try cases involving money laundering violations, Special Courts were created. These courts deal with cases involving the penalties for money laundering and other PMLA-listed offenses. The Special Court has the power to try cases involving money laundering and to issue sanctions.

6. **Competent Authority Section 5**

   The task of initiating the attachment of property suspected of being involved in money laundering falls to the Competent Authority. Following a complaint from the Enforcement Directorate or other authorities regarding the potential participation of property in money laundering, the authority may take action under the PMLA.

7. **Authorities Appointment by the Central Government: Section -48(f):**

   Function: Any other officer may be appointed by the central government to help with PMLA administration and enforcement.

POWER OF ED UNDER THE ACT :

1.) **Power to Arrest:**

   Section 19 grants the ED the power to arrest individuals if the officer has reason to believe, based on material in their possession, that the person is guilty of an offence punishable under PMLA. The officer must record the reason for their belief in writing and inform the arrested person of the grounds for arrest.

2) **Investigation Powers:**

   Sections 48 and 49 empower ED officers to investigate cases of money laundering, including initiating proceedings for the attachment of property and launching prosecutions in Special Courts.

3) **Information Sharing:**

   Section 66 allows the ED to share information obtained during an investigation with any government agency that may be concerned with the relevant law.

4) **International Cooperation:**

   PMLA facilitates international cooperation to trace and recover proceeds of crime held outside India.

5) **Other Powers:**

   The ED also has powers to conduct searches, seize property, and enforce attendance of persons.

CASE LAWS:

Here are some significant case laws related to the Prevention of Money Laundering Act, 2002 (PMLA) in India, which have shaped its interpretation and application

S. No.	Case Name	Citation	Key Issue	Legal Principle / Outcome
1	Vijay Madanlal Choudhary v. Union of India	(2022) 10 SCC 435	Constitutionality of PMLA provisions	Upheld wide powers of ED; affirmed PMLA validity; held ECIR not an FIR; bail under Sec. 45 valid
2	Nikesh Tarachand Shah v. Union of India	(2018) 11 SCC 1	Validity of twin bail conditions under Sec. 45	Declared twin conditions unconstitutional (later restored via amendment)
3	Enforcement Directorate v. Kapil Wadhawan	(2022) SCC OnLine SC 1161	Role of ED and trial under PMLA	Clarified ED's investigative powers; trial under PMLA to follow proper criminal procedures
4	*P. Chidambaram v. Directorate of Enforcement*	(2019) 9 SCC 24	Anticipatory bail in PMLA case	Anticipatory bail denied; held economic offences to be grave in nature
5	*Y.S. Jagan Mohan Reddy v. CBI*	(2013) 7 SCC 439	Disproportionate assets; proceeds of crime	Reiterated that proceeds of crime can include tainted property even indirectly

CONCLUSION :

In conclusion In order to prevent financial crimes and preserve the integrity of India's financial system, the Prevention of Money Laundering Act (PMLA), 2002, is essential. By making money laundering illegal, controlling financial transactions, and imposing stringent reporting requirements, the Act aids in preventing the financial system from being abused for illegal purposes. To protect the economy and advance accountability and openness, the PMLA must be implemented and enforced effectively.

Topic

Module 10 : Portfolio Performance Evaluation and Portfolio Revision

Module 11 : Efficient Market Hypothesis

FINAL

Group III - Paper-14

Strategic Financial Management (SFM)

Topic: Portfolio Performance Evaluation

- **Multiple Choice Questions**

1. For a portfolio containing three securities A, B and C,

   correlation coefficients ρAB = +0.4; ρAC = +0.75; ρBC = - 0.4;

   standard deviation σA = 9; σB = 11; σC = 6;

   weights ωA = 0.2; ωB = 0.5; ωC = 0.3;

   The covariance of securities A and B is

   A. 3.96

   B. 24.75

   C. 39.6

   D. 247.5

   Answer: (C) 39.6

   Justification: ρAB × σA × σB = 0.4 × 9 × 11 = 39.6

2. The following information is available for a mutual fund:

   Return 13%

   Risk (S.D. i.e. σ) 16%

   Beta (β) 0.90

   Risk Free Rate 10%

   Treynor's Ratio of the mutual fund is:

   A. 3.85

   B. 4.43

   C. 3.33

   D. 3.73

   Answer: (C) 3.33

   Justification: Treynor's Ratio = (Rp – Rf)/β = (13 – 10)/0.90 = 3.33 Where, Rp = Return; Rf = Risk Free Rate of Return; β = Beta

3. The intercept of the Security Market Line (SML) on the y axis is

   A. E(Rm) - Rf

   B. 1/[E(Rm) - Rf]

   C. Rf - E(Rm)

   D. Rf

   Answer: (D) Rf

   Justification: Rf, The risk-free rate.

- **Comprehensive Problems**

Illustration 1

The following are return in % of securities A, B and the market in excess of the risk-free rate:

Security A	Security B	Market
12	16	14
15	18	16
18	20	18

(i) Determine the characteristic line for securities A and B.

(ii) What would be the beta of a portfolio consisting of 75% investment in A and 25% in B?

(iii) When the market return is 15%, what would be the return on the portfolio?

Solution:

Mkt X	A	B	X-E(X)	A-E(A)	B-E(B)	[X-E(X)]2	[X-E(X)][A-E(A)]	[X-E(X)][B-E(B)]
14	12	16	-2	-3	-2	4	6	4
16	15	18	0	0	0	0	0	0
18	18	20	+2	+3	+2	4	6	4
48	45	54	0	0	0	8	12	8
E(X) = 48/3=16	E(A) = 45/3=15	E(B) = 54/3=18				V(X) = 8/3	Cov(X,A)=12/3 = 4	Cov(X,B) = 8/3

Characteristic line of Security A: y - E(A) = [Cov (A, Market)/Var (Market)] × (Market – 16)

y – 15 = [4 ÷ 8/3] (x-16) or, y-15 = 1.5x-24 y = 1.5x - 9

Characteristic line of Security B: y – E(B) = [Cov (B, Market)/Var (Market)]× (Market -16)

y-18 = [8/3 ÷ 8/3] (x-16) Or, y-18 = (x-16) y = x + 2,

(ii) βA = 1.5 and βB =1. Therefore, beta of a portfolio containing 75% A and 25% B will be: βp = 0.75 x 1.5 + 0.25 x 1 = 1.375

Portfolio = 0.75A + 0.25B

(iii) When market return is 15% above risk free rate, y = (1.5 x 15) - 9 = 22.5 - 9 = 13.5 and y = 15 + 2 = 17 respectively for Stock A and Stock B.

Stock A return =13.5 and Stock B return = 17, as per the characteristic line equations. Substituting these values in the portfolio, we get, Expected return on portfolio = E(P) = E (0.75A + 0.25B) = 0.75 x 13.5 + 0.25 x 17 = 10.125+4.25 = 14.375%.

This return is above the risk - free rate.

Illustration 2

From the following information, find out the market price of risk of portfolio.

Market Return	Standard Deviation of Market Return	Return on Government Bonds	Standard Deviation of Portfolio
20%	7%	7%	9%
22%	8%	8%	5%
24%	10%	9%	13%

Also determine the expected return for each of the above cases.

Solution:

Expected Return of the Portfolio Rp = Rf + λ x σp

Market price of risk of the portfolio λ = (Rm - Rf)/σm

Market Return (Rm)	Standard Deviation of Market Return (σm)	Return on Government Bonds (R_f)	Standard Deviation of Portfolio(σp)	Market price of Risk (λ)	Expected Return (Rp)
1	2	3	4	5 = [1-3]/2	6=[3+(5x4)]
20%	7%	7%	9%	1.85	23.65%
22%	8%	8%	5%	1.75	16.75%
24%	10%	9%	13%	1.50	28.50%

Illustration 3

An investor has a sum of ` 40 lacs with which he wishes to construct a portfolio of securities X and Y. The following information is provided:

Security	Expected Return (%)	Standard Deviation (%)
X	18	12
Y	20	15

The coefficient of correlation between the returns of X and Y is 0.7.

(i) How much should he invest in X and Y in order to have a portfolio of minimum variance: What would be this minimum variance?

(ii) If he invested equally in X and Y, what would be the variance of the portfolio?

(iii) Would you consider his portfolio in (i) and (ii) sufficiently diversified? Why?

Solution:

(i) Weightage of securities for minimum variance of portfolio W, for portion in X and 1-Wx for proportion in Y.

$$Wx = \frac{\sigma_y^2 - Cov(x, y)}{\sigma_y^2 + \sigma_y^2 - 2Cov(x, y)} = \frac{225 - 0.7 \times 12 \times 15}{144 + 225 - 2 \times 0.7 \times 15 \times 12} = 0.8462 = 84.62\%$$

Hence investment in X = 84.62% of 40 lacs = 33,84,615, or rounded off to 33.85 lacs or even 34 lacs.

Investment in Y would be 6,15,385, or, 6.15 lacs or 6 lacs.

The variance of this portfolio will be:

V (0.8462X + 0.1538Y) = 0.84622V(X) + 0.15382V(Y) +2 x 0.8462 x 0.1538 x cov(X, Y)

= 103.11+ 5.32 + 32.8

= 141.23

(ii) If he invested equally in X and Y,

V (0.5X + 0.5Y) = 0.52 V(X) + 0.52 V(Y) + 2 x 0.5 x 0.5 x cov(X, Y)

= 36 + 56.25 + 63

= 155.25

(iii) The portfolios in (i) and (ii) are not sufficiently diversified since the correlation coefficient is high at + 0.7. If the securities do well individually, both do well and if one falls, the other also falls significantly.

Topic: Efficient Market Hypothesis

Multiple Choice Questions:

1. If markets are efficient, the difference between the intrinsic value and market value of a company's security is:

   A. negative.

   B. zero.

   C. positive.

   D. none of the above

2. The intrinsic value of an undervalued asset is:

   A. less than the asset's market value.

   B. greater than the asset's market value.

   C. the value at which the asset can currently be bought or sold.

   D. none of the above

3. The market value of an undervalued asset is:

   A. greater than the asset's intrinsic value.

   B. the value at which the asset can currently be bought or sold.

   C. equal to the present value of all the asset's expected cash flows.

   D. none of the above

4. With respect to the efficient market hypothesis, if security prices reflect only past prices and trading volume information, then the market is:

   A. weak-form efficient.

   B. strong-form efficient.

   C. semi-strong-form efficient.

   D. super strong form efficiency

5. Which one of the following statements best describes the semi-strong form of market efficiency?

   A. Empirical tests examine the historical patterns in security prices.

   B. Security prices reflect all publicly known and available information.

   C. Semi-strong-form efficient markets are not necessarily weak-form efficient.

   D. none of the above

6. If markets are semi-strong efficient, standard fundamental analysis will yield abnormal trading profits that are:

   A. negative.

   B. equal to zero.

   C. positive.

   D. none of the above

7. If prices reflect all public and private information, the market is best described as:

   A. weak-form efficient.

   B. strong-form efficient.

   C. semi-strong-form efficient.

   D. super strong form efficiency

8. Technical analysts assume that markets are:

   A. weak-form efficient.

   B. weak-form inefficient.

   C. semi-strong-form efficient.

   D. super strong form efficiency

9. Fundamental analysts assume that markets are:

   A. weak-form inefficient.

   B. semi-strong-form efficient.

   C. semi-strong-form inefficient

   D. none of the above

10. If a researcher conducting empirical tests of a trading strategy using time series of returns finds statistically significant abnormal returns, then the researcher has most likely found:

    A. a market anomaly.

    B. evidence of market inefficiency.

    C. a strategy to produce future abnormal returns.

    D. none of the above

Answer:

1-B; 2-B; 3-B; 4-A; 5-B; 6-B; 7-B; 8-B; 9-C; 10-B

Topic

Module 13 : Transfer Pricing

FINAL

Group III - Paper-15

Direct Tax Laws and International Taxation (DIT)

Transfer Pricing

"Transfer Pricing is not an exact science but does require the exercise of judgement on the part of both the tax administration and taxpayer"

In today's globalized economy, businesses frequently engage in cross-border transactions within their group companies. These transactions—ranging from the sale of goods and provision of services to the transfer of intangible assets—often occur between entities that are economically connected. In such scenarios, there exists a natural tendency to influence pricing in a way that benefits the group as a whole, often resulting in the erosion of taxable income in high-tax jurisdictions.

Transfer Pricing regulations are designed to counter such practices by mandating that related party transactions must be conducted at Arm's Length Price (ALP)—the price that would have been charged between unrelated parties in an open market. These rules not only protect the tax base of a country but also promote fairness, transparency, and global alignment in tax practices.

Transfer Pricing is not just an academic concept—it's a crucial real-world tool that plays a significant role in financial planning, international taxation, and regulatory compliance. A strong command of this subject equips students to handle complex business models and advisory assignments with confidence and competence.

It refers to the rules and methods for pricing transactions within and between enterprises under common ownership or control. The main objective of transfer pricing regulations is to ensure that transactions between related parties are conducted at arm's length prices, thereby preventing profit shifting and base erosion. Commercial transactions between the different parts of the multinational groups may not be subject to the same market forces shaping relations between the two independent firms. One party transfers goods or services to another for a price. That price is known as "transfer price". This may be arbitrary and dictated, with no relation to cost and added value, diverge from the market forces. Transfer price is, thus, a price which represents the value of goods or services between independently operating units of an organisation. But, the expression "transfer pricing" generally refers to prices of transactions between associated enterprises which may take place under conditions differing from those taking place between independent enterprises. It refers to the value attached to transfers of goods, services and technology between related entities. It also refers to the value attached to transfers between unrelated parties which are controlled by a common entity.

Term	Description
Transfer Price	The price at which goods or services are transferred between related parties.
Arm's Length Price	Price charged in a **comparable transaction between unrelated parties** under similar conditions.
Associated Enterprises (AEs)	Entities having control, common ownership, or influence over each other, either directly or indirectly.

Suppose a company A purchases goods for ₹ 100 and sells it to its associated company B in another country for ₹ 200, who in turn sells in the open market for ₹ 400. Had A sold it direct, it would have made a profit of ₹ 300. But by routing it through B, it restricted it to ₹ 100, permitting B to appropriate the balance. The transaction between A and B is arranged and not governed by market forces. The profit of ₹ 200 is, thereby, shifted to the country of B. The goods is transferred on a price (transfer price) which is arbitrary or dictated (₹ 200), but not on the market price (₹ 400). Thus, the effect of transfer pricing is that the parent company or a specific subsidiary tends to produce insufficient taxable income or excessive loss on a transaction. For instance, profits accruing to the parent can be increased by setting high transfer prices to siphon profits from subsidiaries domiciled in high tax countries, and low transfer prices to move profits to subsidiaries located in low tax jurisdiction. As an example of this, a group which manufacture products in a high tax countries may decide to sell them at a low profit to its affiliate sales company based in a tax haven country. That company would in turn sell the product at an arm's length price and the resulting (inflated) profit would be subject to little or no tax in that country. The result is revenue loss and also a drain on foreign exchange reserves.

Importance of Transfer Pricing

- Ensures **fair taxation** in each country involved in cross-border transactions.
- Prevents **manipulation of profits** to low-tax jurisdictions.
- Essential for maintaining **tax neutrality and international tax compliance**.

Computation of income from international transaction or specified domestic transactions having regard to arm's length price [Sec. 92]

The provisions are as under:

Provisions	Example	Treatment	Impact on income
Any income arising from an *international transaction* shall be computed having regard to the *arm's length price*.	X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm's length price of such goods or services is ₹ 9 lacs	While computing income of X Ltd., ₹ 9 lacs shall be considered as sale value	Income of X Ltd. will be increased by ₹ 4 lacs.
The allowance for any expense or interest arising from an international transaction or specified domestic transaction[1] shall also be determined having regard to the arm's length price.	R Ltd. takes a loan of ₹ 20 lacs from an associated enterprise in Ireland @ 20% p.a. whereas the arm's length rate of interest is 12% p.a.	Interest @ 12% p.a. shall be allowed as deduction to R Ltd.	Income of R Ltd. will be increased by ₹ 1,60,000/-
Where in an international transaction or specified domestic transaction, • two or more *associated enterprises* • enter into a mutual agreement or arrangement for the apportionment of, or any contribution to, any cost incurred • in connection with a benefit, service or facility provided to any such enterprises, the cost apportioned to (contributed by), any such enterprise shall be determined having regard to the arm's length price of such benefit, service or facility.	An enterprise in Germany makes research on a new product and incurred ₹ 50 lacs. Out of this, ₹ 40 lacs has been allocated to its Indian associated enterprises dealing in the same product.	While computing income of Indian enterprise, it will be required to be examined whether the Indian enterprise is deriving proportionate benefit to the research expenditure allocated	If no such benefit is available to the Indian enterprise, total income of such enterprises is suitably increased by disallowing proportionate allocated cost.
The provisions (in any of aforesaid situation) shall not apply in a case where the computation of income or the determination of the allowance for any expense or interest or the determination of any cost or expense allocated or contributed has the *effect of reducing the income* chargeable to tax or increasing the loss, as the case may be, computed on the basis of entries made in the books of account in respect of the previous year in which the international transaction or specified domestic transaction was entered into.	X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm's length price of such goods or services is ₹ 3 lacs	The provision of transfer pricing is not applicable	No Impact

1 Any allowance for an expenditure or interest or allocation of any cost or expense or any income in relation to the specified domestic transaction shall be computed having regard to the arm's length price.

Arm's length price [Sec. 92F(ii)]

The arm's length principle is the cornerstone of transfer pricing regulations. According to this principle, transactions between associated enterprises should be conducted as if they were between unrelated parties, each acting in its own best interest. The objective is to ensure that the transfer prices reflect market conditions and are not manipulated to minimize tax liabilities.

As per sec. 92F(ii), arm's length price means

(i) a price which is applied or proposed to be applied in a transaction

(ii) between persons other than associated enterprises (i.e., unrelated person, resident or non-resident),

(iii) in uncontrolled conditions.

Taxpoint: *There may be more than one arm's length price.*

Meaning of associated enterprise [Sec. 92A]

Associated enterprise, in relation to another enterprise, means an enterprise:

(a) which participates, directly or indirectly, or through one or more intermediaries, in the *management* or *control* or *capital* of the other enterprise; or

(b) in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.

Deemed associated enterprise [Sec. 92A(2)]

For the above purpose, two enterprises shall be deemed to be associated enterprises if, at any time during the previous year fulfil any of the following conditions (if one of the following conditions is not satisfied, then mere participation in management or control or capital of the other enterprise, etc. shall not make them associate):

Equity Holding	Management	Activities	Control
1. >= 26% direct / indirect holding by enterprise OR 2. By same person in each enterprise 3. Loan >= 51% of Total Assets 4. Guarantees >= 10% of debt 5. > 10% interest in Firm / AOP / BOI	6. Appointment > 50% of Directors / one or more Executive Director by an enterprise OR 7. Appointment by same person in each enterprise	8. 100% dependence on use of intangibles for manufacture / processing / business 9. Direct / indirect supply of > = 90% Raw Materials under influenced prices and conditions 10. Sale under influenced prices and conditions	11. One enterprise controlled by an individual and the other by himself or his relative or jointly 12. One enterprise controlled by HUF and the other by - a member of HUF - his relative or - Jointly by member and relative

Computation of arm's length price [Sec. 92C]

The arm's length price in relation to an international transaction or specified domestic transaction shall be determined by any of the following methods, being the most appropriate method, having regard to the nature of transaction or class of transaction or class of associated persons or functions performed by such persons or such other relevant factors as the Board may prescribe, namely:

A. Traditional Transaction Methods

1. **Comparable Uncontrolled Price (CUP) Method**:
   - The CUP method compares the price charged for goods or services in a controlled transaction to the price charged in a comparable uncontrolled transaction under similar circumstances.

- This method is considered the most direct and reliable way to apply the arm's length principle if reliable comparables are available.

2. **Resale Price Method (RPM)**:
   - The RPM begins with the price at which a product purchased from an associated enterprise is resold to an independent party. This resale price is then reduced by an appropriate gross margin to determine the arm's length price.
   - This method is particularly useful when the reseller does not add significant value to the goods.

3. **Cost Plus Method (CPM)**:
   - The CPM involves determining the arm's length price by adding an appropriate mark-up to the costs incurred by the supplier of goods or services in a controlled transaction.
   - This method is often used for transactions involving the provision of services or the manufacture of goods involving routine functions.

B. Transactional Profit Methods

1. **Transactional Net Margin Method (TNMM)**:
   - The TNMM examines the net profit margin relative to an appropriate base (e.g., sales, costs, assets) that a taxpayer realizes from a controlled transaction.
   - This method is commonly used when traditional transaction methods are not feasible due to the lack of reliable comparables.

2. **Profit Split Method (PSM)**:
   - The PSM identifies the combined profit to be split for the associated enterprises from the controlled transactions and then splits those profits based on an economically valid basis that reflects the relative value of each enterprise's contribution.
   - This method is suitable for complex, highly integrated operations involving the development and exploitation of intangibles.

Transfer Pricing stands at the intersection of **taxation, economics, and international business strategy**. It is a critical aspect of international taxation, ensuring that transactions between related parties are conducted at arm's length. The regulations aim to prevent profit shifting and base erosion, promote fair competition, and align with international standards. Compliance with transfer pricing regulations requires meticulous documentation, adherence to prescribed methods, and a thorough understanding of the economic and functional aspects of the transactions. As the global business environment continues to evolve, transfer pricing practices must adapt to address emerging challenges and ensure fair and transparent tax practices.

Topic

Module 10 : Simulation

FINAL

Group III - Paper-16

Strategic Cost Management (SCM)

Simulation

1.0. Introduction

Simulation is the most important technique used in analyzing complex real-world problems that cannot be represented by a mathematical model due to their stochastic nature, complexity in their formulation and involvement of too many unknown variables. It has become an important tool for tackling the complicated managerial decision-making problems. It determines the effect of a number of alternate policies without disturbing the real system.

Simulation is a modeling and analysis tool widely used for the purpose of designing, planning, and control of manufacturing systems. Commonly it is used to pretend that one deals with a real thing while really working with an imitation. In operations research, the imitation is a computer model of the simulated reality. The task of executing simulations provides insight and a deep understanding of physical processes that are being modelled.

Simulation can be defined as "A quantitative technique that uses a computerized symbolic model in order to represent actual decision making under uncertainty for determining alternative courses of action based upon facts and assumptions".

Its applications can be understood with the help of Figure 1 below:

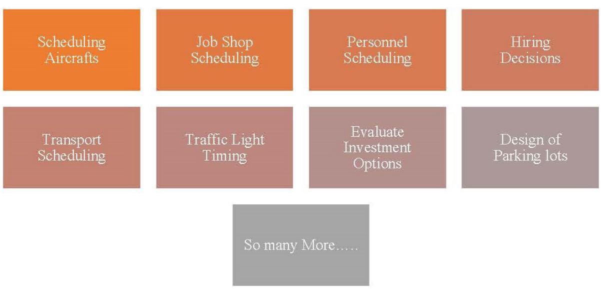


Figure 1

2.0 Steps involved in Formulating Simulation Model

All simulation projects follow the steps given below:

i. Define the problem

ii. Data collection

iii. Problem analysis

iv. Simulation model specification

v. Model programming

vi. Model validation

vii. Simulation experimentation

viii. Evaluation and interpretation of simulation results

ix. Report generation and plans for implementation of the results.

3.0. Monte Carlo Simulation

Monte Carlo simulation, or probability simulation, is a technique used to understand the impact of risk and uncertainty in financial, project management, cost, and other forecasting models. **It is a Simulation technique in which statistical distribution functions are created using a series of random numbers.**

This method is generally used to solve problems which cannot be adequately represented by mathematical models or where solution of the problem is not possible by analytical method. This method yields a solution which is very close to the optimal. But the solution given by this method converges to the optimum as the number of simulation trials tend to infinity. This technique has derived its name from the gambling establishments of Monte Carlo because the samples are selected in a purely random manner.

Following are the steps to solve a problem by Monte Carlo Simulation technique.

i. Clearly define the problem in order to determine the objectives and constraints.

ii. Construct the appropriate model and decide which variables are to be included. Ensure that the model is a true representative of the real life problem.

iii. Specify values of variables to be tested. Supply values of input parameters and measure the output values.

iv. Collect the information required. Also determine the functional relationships and the types of probability distribution which are to be applied.

v. Define a coding system that will correlate the factors identified in step (1) with the random numbers that will be generated for the simulation.

vi. Select a random number generator and create the random numbers to be used in the simulation.

vii. Correlate the generated random numbers with the factors identified in steps (1) & (5) above.

viii. Summarise and examine the results.

ix. Evaluate the results of the simulation and select the best course of action.

x. Formulate proposals for advising the management on new policies and modify the model if necessary.

4.0. Practical Problems:

In examination, usually solution by Monte Carlo method is asked. So, from examination view point, more practical questions to be practiced.

Illustration 1:

A trader deals in a perishable commodity, the daily demand and supply of which are random variables. Records of 500 trading days are shown as under:

SUPPLY		DEMAND	
Tons Available	Number of Days	Tons Demanded	Number of Days
10	40	10	50
20	50	20	110
30	190	30	200
40	150	40	100
50	70	50	40

The trader buys and sells commodity @ ₹ 20 per kg and Rs 30 per kg respectively. If it remains unsold at the end of the day, it has no saleable value. The loss through unsatisfied demand is ₹7 per kg.

Given are random numbers, simulate six-day trading: (31) (18), (63) (84), (15) (79), (07) (32), (43) (75), (81) (27)

Use the random numbers alternatively i.e. first pair (31) to simulate supply and second pair (18) to simulate demand. Also work out the total profit for 6 days.

Solution:

Statement of the Random Numbers Range

SUPPLY					DEMAND				
Qty (MT)	Number of Days	Probability	Cum Prob	Random No Range	Qty. (MT)	Number of Days	Probability	Cum Prob	Random No Range
10	40	40/500 =0.08	0.08	0-7	10	50	50/500 =0.10	0.10	0-9
20	50	50/500 =0.10	0.18	8-17	20	110	110/500 =0.22	0.32	10-31
30	190	190/500 =0.38	0.56	18-55	30	200	200/500 =0.40	0.72	32-71
40	150	150/500 =0.30	0.86	56-85	40	100	100/500 =0.20	0.92	72-91
50	70	70/500 =0.14	1.00	86-99	50	40	40/500 =0.08	1.00	92-99
Total	500	1.00			Total	500	1.00		

Statement of Simulation

SUPPLY			DEMAND			Cost	Revenue	Shortage Loss	Profit/ (Loss)
Day	Random Number	Tons Available	Day	Random Number	Tons Demanded	(₹)	(₹)	(₹)	(₹)
1	31	30	1	18	20	600	600	-	-
2	63	40	2	84	40	800	1200	-	400
3	15	20	3	79	40	400	600	140	60
4	07	10	4	32	30	200	300	140	(40)
5	43	30	5	75	40	600	900	70	230
6	81	40	6	27	20	800	600	-	(200)
Total						3400	4200	350	450

Total Profit for 6 days will be ₹450/-

Illustration 2:

Single Digit Random Numbers

A company trading in motor vehicle spares wishes to determine the levels of stock it should carry for the items in its range. Demand is not certain and there is a lead time for stock replenishment. The following information is obtained:

Demand (Units per Day)	Probability
3	0.10
4	0.20
5	0.30
6	0.30
7	0.10

Carrying costs (per unit per day) = ₹ 0.20

Ordering costs (per order) = ₹ 500

Lead time for replenishment (in days) = 3

Stock in the beginning is 20 units. Carry out the simulation run for ten days. Further order 15 units when present inventory plus any outstanding order falls below 15 units. The sequence of random numbers is 0,9,1,1,5,1,8,6,3,5 using the first number for day one. Calculation should include the total cost of operating this inventory for ten days,

Solution:

Statement of the Random Numbers

Demand	Probability	Cumulative probability	Random Numbers Range
3	0.10	0.10	0
4	0.20	0.30	1-2
5	0.30	0.60	3-5
6	0.30	0.90	6-8
7	0.10	1	9

Statement of Simulation

Days	Random Number	Simulated Demand	Opening Stock	Closing Stock	Orders Placed	Orders Received	Average Stock
1	0	3	20	17			18.5
2	9	7	17	10	Yes		13.5
3	1	4	10	6			8
4	1	4	6	2			4
5	5	5	2	(3)	Yes		1
6	1	4	12	8		Yes	10
7	8	6	8	2			5
8	6	6	2	(4)	Yes		1
9	3	5	11	6		Yes	8.5
10	5	5	6	1			3.5
			Total		3	2	73

Total Cost for 10 Days period:

Ordering Cost = No of orders x Cost per order = 3 x 500 = 1500

Inventory Carrying Cost = Average inventory x Cost per unit = 73 x ₹20 per unit = ₹1,460

Total cost of inventory holding is ₹ 2,960 (₹1,500 + ₹1,460)

5.0 Learning Take

For solving the questions, systematic Tables to be prepared and conclusion/ Decision asked in the question to be given in the form of the final Statement.

Topic

Module 7 : Cost Audit Documentation, Audit Process and Execution

Module 8 : Preparation and Filing of Cost Audit Report

FINAL

Group IV - Paper-17

Cost and Management Audit (CMAD)

What is " Cost Audit Documentation"?

Documentation is essential for any type of Audit, not only Cost Audit. Cost Audit Documentation means the records, in physical or electronic form, including working papers prepared by and for, or obtained , collected and retained by the Cost Auditor, in connection with the performance of the related audit assignment. It is needless to say that such documentation relates to each of audit assignment and to be maintained separately for a specified period. The Cost Audit documentation will usually contain the following:

(a) Checklists e.g Checklist for validation of each of the element of cost.

(b) Audit programs

It may help the team of auditors to carry out the focused activities and helps the reviewer in understanding the work performed by the team against the defined road map e.g Audit Program for Material Cost, Employee Cost etc.

(c) Analysis

Cost Audit relies more on analytical review than on substantive testing to establish true and fair view e.g Calorific value of different fuels used and average Cost per unit of calorific value and Specific Heat Consumption.

(d) List of Audit Queries

Audit queries are raised to auditee/management to get clarity on some doubts faced by the audit team while performing the review. Auditee replies, confirmation etc. are maintained by way of mails, written explanation etc. Sometimes escalation to higher level is also possible against unresolved queries.

(e) Abstracts or copy of significant contracts

Contracts/Agreements for supply of materials indicating price, quality terms, wage agreements etc. are to be kept with comments ,if any.

(f) Letters of confirmation

For validation of stock physically verified, as organized by management; a confirmation to be obtained through management.

(g) Letter of Representation from Management Correspondence (including e-mail) concerning significant matters

(h) Minutes of the meetings with the auditee

Discussion with auditee carried out at different point of time are recorded in detail, so that the same can be referred,if required.

(i) List of Related Parties and transactions effected

(j) Various reconciliation statements including GST

Who is the owner of the audit documentation?

The audit documentation is to be maintained by the Cost Auditor. Unless otherwise specified by law or regulation, the Cost Auditor may share portions of, or extracts from audit documentation available to the client. Documentation helps the Auditor for cross checking of information

What is the nature and purpose of audit documentation?

The nature of audit documentation should be such that meets the requirement of Cost Auditing Standards issued by ICMAI and is enable to provide:

a) Evidence is the basis of the cost auditor's to draw a conclusion about the achievement of the overall objectives of the audit: and

b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards (CAS) and applicable legal and regulatory requirements.

The purpose of audit documentation is to enable another competent person, having no previous connection with the audit, including person undertaking peer review, to understand that the cost audit conforms and has been performed as per legal and regulatory requirements prescribed in the cost reporting frame work for obtaining sufficient appropriate audit evidence to draw reasonable conclusions on which the cost auditor's opinion is based.

Documentation depends on which factors ?

The important factors for the form, content and extent of cost audit documentation depend on the following:

- The size and complexity of the entity and its environment
- The nature of the audit procedures to be performed
- The identified risks of material misstatement in cost statements as a whole.
- The nature & extent of departure from Cost Accounting Standards or Generally Accepted Auditing Principles
- The nature and extent of exceptions identified on case to case basis
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained
- The cost audit methodology and audit tools used.

What are the key aspects of cost audit documentation?

The key aspects of Cost Audit documentation are -

Planning: The cost audit documentation should reflect the audit plan, including the objectives, scope, and procedures.

Audit Procedures: Details of the procedures performed, e.g data analytics

Audit Evidence: Records of the evidence obtained during the audit, including supporting documents, calculations, and explanations.

Conclusions: The auditor's findings, observations, and recommendations, along with the rationale for their conclusions.

Compliance: Documentation should demonstrate that the audit was conducted in accordance with relevant cost accounting standards and regulations.

What is the period for which a cost auditor is required to retain audit documentation?

The Standard on Cost Audit prescribes that the Cost Audit Documentation should be retained for at least ten years from the date of the Cost Audit Report.

However, Section 128 (5) of the Companies Act 2013 prescribes that the books of account of every company together with the vouchers relevant to any entry in such books of account shall be kept in good order of not less than eight financial years immediately preceding a financial year.

This Section also provides that where an investigation has been initiated in respect of the company, the Central Government may direct that the books of account may be kept for such longer period as it may deem fit.

Cost Audit Report

The cost audit report, prepared by a cost auditor, is submitted to the company within 180 days of the financial year's end. The company then files the report with the Ministry of Corporate Affairs (MCA) through Form CRA-4 within 30 days of its receipt from the auditor.

1. **Preparation by the Cost Auditor:**

   The cost auditor conducts the audit and prepares the cost audit report, which includes observations, reservations, or qualifications, and suggestions for improvement.

2. **Submission to the Company:**

   The cost auditor submits the report to the company, along with any observations or suggestions, in Form CRA-3.

3. **Board Consideration and Approval:**

   The company's Board of Directors reviews and considers the cost audit report, paying close attention to any reservations or qualifications.

4. **Filing with the MCA:**

   The company is required to file the cost audit report, along with full information and explanations of any reservations or qualifications, with the MCA through Form CRA-4 within 30 days of receiving the report from the cost auditor.

5. **Digital Signature:**

   The cost audit report filed with the MCA must be digitally signed by the cost auditor.

6. **Time Limit:**

   The entire process, from the cost auditor submitting the report to the company to the company filing it with the MCA, must be completed within a specified timeframe to ensure compliance with regulations.

Uploading XBRL Format

To upload a cost audit report in XBRL (eXtensible Business Reporting Language) format, one need to use the specific e-Forms I-XBRL for Cost Audit Report and A-XBRL for Compliance Report available on the MCA portal, not the existing e-Forms. These forms are designed specifically for XBRL filings of cost audit and compliance reports. One need to prepare an XBRL instance document by mapping company's financial elements to the prescribed taxonomy. Once the e-Form is filled, pre-scrutinized, signed, and the XBRL instance document can be uploaded through the MCA21 portal.

- XBRL (eXtensible Business Reporting Language) is a standardized format for reporting financial data electronically.
- Cost audit reports and compliance reports are required for companies under the Companies Act, 2013.
- These reports must be filed in XBRL format using specific e-Forms.

Preparing the XBRL Instance Document:

- **Step 1: Identify Financial Elements:**

  Begin with company's financial statements and identify the relevant financial elements.

- **Step 2: Map to Taxonomy:**

  Map each financial element to its corresponding element in the prescribed XBRL taxonomy. The costing taxonomy is a dictionary of cost elements.

- o **Step 3: Create Instance Document:**

  Tag the XBRL taxonomy elements with the relevant accounting heads from company's books of accounts.

- o **Key Considerations:**

  Include information like period of data, unit of measurement, and scale of reporting.

Filling and Uploading the e-Form:

- o **Download e-Forms:** Download the Form I-XBRL for Cost Audit Report and Form A-XBRL for Compliance Report from the MCA portal.
- o **Fill and Pre-Scrutinize:** Fill the e-Form with the necessary details.
- o **Attach XBRL Document:** Attach the generated XBRL instance document to the e-Form.
- o **Sign and Upload:** Sign the e-Form digitally and upload it through the MCA21 portal using login credentials.

5. Resources:

- o **MCA21 Portal:**

  The Ministry of Corporate Affairs (MCA) website is the primary source for downloading e-Forms and understanding the filing process.

Topic

Module 5 :
Accounting for Business Combination and Restructuring

Module 7 :
Recent Developments in Financial Reporting

FINAL

Group IV - Paper-18

Corporate Financial Reporting (CFR)

Accounting for Business Combinations and Restructuring

- **Multiple Choice Questions**

P Ltd. acquired a 60% interest in Q Ltd. on January 1, 2022. P Ltd. paid ₹1800 Lakhs in cash for their interest in R Ltd. The fair value of Q Ltd.'s assets is ₹4,000 Lakhs, and the fair value of its liabilities is ₹2,000 Lakhs. If NCI is valued at fair value, goodwill amounts to:

A. ₹ 600 lakhs

B. ₹ 500 lakhs

C. ₹ 1000 lakhs

D. ₹ 700 lakhs

Solution:

Goodwill = (1800 + 1800 x 40%/60%) – (4000 – 2000) = ₹ 1000 lakh

Hence, the correct option is (C)

- **Comprehensive Problems**

Illustration 1

Briefly explain how contingent consideration should payable in relation to a business combination is accounted for on initial recognition and at the subsequent measurement as per Ind AS 103 in the following case:

On 1 April 2023, AIR Ltd. acquires 100% interest in FIRE Ltd. As per the terms of agreement the purchase consideration was payable in the following 2 tranches:

(i) an immediate issuance of 5 lakhs shares of AIR Ltd. having face value of ₹10 per share.

(ii) a further issuance of 1 lakh shares after one year if the profit before interest and tax of FIRE Ltd. for the first year following acquisition exceeds ₹1 crore. The fair value of the shares of AIR Ltd. on the date of acquisition is ₹20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is ₹12.5 lakhs. During the year ended 31 March 2023, the profit before interest and tax of FIRE Ltd. exceeded ₹1 crore. As on 31 March 2023, the fair value of shares of AIR Ltd. was ₹ 25 per share.

Solution:

Paragraph 37 of Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of

(a) the acquisition-date fair values of the net assets transferred by the purchaser;

(b) the liabilities incurred by the acquirer to former owners of the acquiree company; and

(c) the equity interests issued by the purchaser.

Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

In the given case the amount of purchase consideration to be recognized on initial recognition shall be as follows:

Fair Value of the Shares issued	₹ 1,00,00,000
Fair Value of the Contingent Consideration	₹ 12,50,000
	₹ 1,12,50,000

Illustration 2

Following are the extracts from the Balance Sheets of two companies, Gamma Ltd. and Theta Ltd. as at 31st March, 2023.

Particulars	Gamma Ltd.	Theta Ltd.
	(₹)	(₹)
Assets		
Non-current Assets		
Property, Plant & Equipment	20,00,000	10,00,000
Financial Assets [40,000 Shares in Gamma Ltd.]	-	4,00,000
Current Assets		
Inventory	4,00,000	2,00,000
Financial Assets		
Trade Receivables	6,00,000	2,00,000
Total Assets	30,00,000	18,00,000
Equity and Liabilities		
Equity Share Capital (₹10)	20,00,000	12,00,000
Other Equity		
Reserve	4,00,000	2,20,000
Current Liabilities		
Trade Payables	6,00,000	3,80,000
Total Liabilities	30,00,000	18,00,000

Gamma Ltd was to absorb Theta Ltd. on the basis of intrinsic value of the shares, the purchase consideration was to be discharged in the form of fully paid shares. A sum of ₹80,000 is owed by Gamma Ltd. to Theta Ltd. Also included in the stocks of Gamma Ltd. ₹1,20,000 goods supplied by Theta Ltd. cost plus 20%. Absorption was completed on 31.03.2023.

You are required to prepare the Consolidated Balance Sheet of Gamma Ltd. after acquisition of Theta Ltd. (Workings relating to fair value of shares of the companies, purchase consideration and number of shares to be issued by Gamma Ltd. and amount of goodwill or gain on purchase consideration should form part of your answer).

Solution:

(i) Calculation of fair value of share

Particulars	Gamma Ltd. (₹)	Theta Ltd. (₹)
Property, Plant and Equipment	20,00,000	10,00,000
Inventories	4,00,000	2,00,000
Trade Receivables	6,00,000	2,00,000
Total Assets(A)	30,00,000	14,00,000
Add: Investment in Gamma Ltd. 40000 shares @ ₹12* each (B)		4,80,000
Less: Trade Payables (C)	6,00,000	3,80,000
Net assets(A+B-C)	24,00,000	15,00,000
No. of shares outstanding	2,00,000	1,20,000
Intrinsic and fair value per share	12	12.50

*Fair value

Note- It is assumed that the intrinsic value of shares is same as the fair value and book value of assets and liabilities represents the fair value of each item of assets.

(ii) Calculation the amount of purchase consideration

Particulars	₹
a. No. of Shares of Theta Ltd. (₹12,00,000/₹10)	1,20,000
b. Value of shares @ ₹12.50	15,00,000
c. No. of shares issuable based on Intrinsic value of ₹12 (15,00,000/12)	
d. No. of shares of Gamma Ltd. held by Theta Ltd.	1,25,000
e. Net shares to be issued	(40,000)
f. *Total consideration at par (85,000 x ₹12)	85,000
	10,20,000

*Share capital = 85000 x 10 = 850000 and Securities Premium = 85000 x 2 = 170000

(iii) Calculation of value of Goodwill

Particulars	₹
Net Assets acquired at fair value (13,80,000*-3,80,000)	10,00,000
Consideration Transferred	10,20,000
Goodwill	20,000

* ₹14,00,000 – ₹20,000 [for inter-company profit (₹120000 x 20/120)]

Consolidated Balance Sheet

as on 31.03.2023

Particulars	**(₹)**
Assets	
Non-current Assets	
Property, Plant & Equipment	30,00,000
Goodwill	20,000
Current Assets	
Inventory (400000 + 200000 – 20000)	5,80,000
Financial Assets	
Trade Receivables (600000 + 200000 – 80000)	7,20,000
Total	43,20,000
Equity and Liabilities	
Equity Share Capital (₹10)	28,50,000
Other Equity	
Reserve	4,00,000
Securities Premium	1,70,000
Current Liabilities	
Trade Payables (6,00,000 + 3,80,000 – 80,000)	9,00,000
Total	43,20,000

Topic: Recent Developments in Financial Reporting

- **Comprehensive Illustration**

Illustration 1

P Ltd. has the following financial data for the year ending 31st March,2024:

(i) Sales Revenue: ₹2,000 Lakh

(ii) Purchase of Raw Materials: ₹1060 Lakh

(iii) Total Stock of Raw Materials, WIP and Finished Goods:

Opening Stock: ₹ 120 Lakh

Closing Stock: ₹180 Lakh

(iv) Printing and Stationery: ₹ 70 Lakh

(v) Auditor's Fees: ₹ 10 Lakh

(vi) Rent, Rates and other Expenses: ₹20

(vii) Wages & Salaries: ₹200 Lakh

(viii)Depreciation: ₹60 Lakh

(ix)Interest: ₹40 Lakh

(x) Taxes: ₹50 Lakh

(xi) Dividend: ₹220 Lakh

(xii) Retained Earnings for the year: ₹330 Lakh

Prepare a Value-Added Statement with showing distribution of value added for P. Ltd. for the year ended 31st March, 2024.

Solution:

Value Added Statement for P Ltd.
for the year ended 31st March,2024

Generation of Value Added:	(₹ in Lakh)	(₹ in Lakh)
Sales Revenue		2,000
Add: Increase in Stock of Raw Materials, WIP &FG	(180-120)	60
Less: Cost of brought-in-materials and services:		2,060
Purchase of Raw Material	1060	
Printing and Stationery	70	
Auditor's Fees	10	
Tent, Rates & Other Exp.	20	1,160
Total Value Added		900

Distribution of Value Added

Particulars	(₹ in Lakh)	(₹ in Lakh)
Total Value Added (Generated)		900
A. To Employees: Wages & Salaries		200
B. To Government: Taxes		50
C. To Providers of Capital:		
Interest	40	
Dividend	220	260
D. To Re-investment in Business:		
Depreciation	60	
Retained Earnings	330	390
Total Distribution (A+B+C+D)		900

Topic

Module 26 : Export Promotion Schemes under Foreign Trade Policy

FINAL

Group IV - Paper-19

Indirect Tax Laws and Practice (ITLP)

Foreign Trade Policy

Foreign Trade Policy (FTP) is a set of guidelines and regulations formulated by a country's government to manage and promote international trade. The policy outlines the framework for trade relations with other nations and aims to enhance the country's export performance, improve trade balance, and facilitate economic growth.

The primary objectives of a foreign trade policy are:

- **Boosting Exports**: To increase the country's exports by providing incentives, reducing trade barriers, and promoting value-added products.
- **Import Regulation**: To regulate imports to protect domestic industries, ensure the availability of essential goods, and maintain the trade balance.
- **Economic Growth**: To contribute to economic growth by enhancing the competitiveness of domestic industries and integrating the economy with global markets.
- **Job Creation**: To create employment opportunities by promoting export-oriented industries and attracting foreign investment.
- **Technology Transfer**: To facilitate the transfer of advanced technologies and skills from other countries to improve domestic production capabilities.
- **Diversification of Trade**: To diversify export markets and products to reduce dependency on a few markets and mitigate risks.

India's Foreign Trade Policy (FTP) 2023 is a strategic framework designed to boost export competitiveness, facilitate trade processes, and integrate technology-driven solutions. It focuses on process re-engineering, automation, and simplifying compliance for exporters. Key initiatives include duty exemption schemes, recognition of export hubs, e-commerce expansion, and merchanting trade facilitation, all aiming to position India as a global trade powerhouse.

The FTP 2023 encourages recognition of new towns through "Towns of Export Excellence Scheme" and exporters through "Status Holder Scheme". The FTP 2023 is facilitating exports by streamlining the popular Advance Authorization and EPCG schemes, and enabling merchanting trade from India.

Process Re-Engineering and Automation

Greater faith is being reposed on exporters through automated IT systems with risk management system for various approvals in the new FTP. The policy emphasizes export promotion and development, moving away from an incentive regime to a regime which is facilitating, based on technology interface and principles of collaboration. Considering the effectiveness of some of the ongoing schemes like Advance Authorisation, EPCG etc. under FTP 2015-20, they will be continued along with substantial process re-engineering and technology enablement for facilitating the exporters. FTP 2023 codifies implementation mechanisms in a paperless, online environment, building on earlier 'ease of doing business' initiatives. Reduction in fee structures and IT-based schemes will make it easier for MSMEs and others to access export benefits.

Duty exemption schemes for export production will be implemented through Regional Offices in a rule-based IT system environment, eliminating the need for manual interface. During the FY23-24, all processes under the Advance and EPCG Schemes, including issue, re-validation, and EO extension, will be covered in a phased manner. Cases identified under risk management framework will be scrutinized manually, while majority of the applicants are expected to be covered under the 'automatic' route initially.

Towns of Export Excellence

Four new towns, namely Faridabad, Mirzapur, Moradabad, and Varanasi, have been designated as Towns of Export Excellence (TEE) in addition to the existing 39 towns. The TEEs will have priority access to export promotion funds under the MAI scheme and will be able to avail Common Service Provider (CSP) benefits for export fulfillment under the EPCG Scheme. This addition is expected to boost the exports of handlooms, handicrafts, and carpets.

Recognition of Exporters

Exporter firms recognized with 'status' based on export performance will now be partners in capacity-building initiatives on a best-endeavor basis. Similar to the 'each one teach one' initiative, 2-star and above status holders would be encouraged to provide trade-related training based on a model curriculum to interested individuals. This will help India build a skilled manpower pool capable of servicing a \$5 Trillion economy before 2030. Status recognition norms have been re-calibrated to enable more exporting firms to achieve 4 and 5-star ratings, leading to better branding opportunities in export markets.

Promoting export from the districts

The FTP aims at building partnerships with State governments and taking forward the Districts as Export Hubs (DEH) initiative to promote exports at the district level and accelerate the development of grassroots trade ecosystem. Efforts to identify export worthy products & services and resolve concerns at the district level will be madethrough an institutional mechanism – State Export Promotion Committee and District Export Promotion Committee at the State and District level, respectively. District specific export action plans to be prepared for each district outlining the district specific strategy to promote export of identified products and services.

Streamlining SCOMET Policy

India is placing more emphasis on the "export control" regime as its integration with export control regime countries strengthens. There is a wider outreach and understanding of SCOMET (Special Chemicals, Organisms, Materials, Equipment and Technologies) among stakeholders, and the policy regime is being made more robust to implement international treaties and agreements entered into by India.A robust export control system in India would provide access of dual-use High end goods and technologies to Indian exporters while facilitating exports of controlled items/ technologies under SCOMET from India.

Facilitating E-Commerce Exports

E-commerce exports are a promising category that requires distinct policy interventions from traditional offline trade. Various estimates suggest e-commerce export potential in the range of $200 to $300 billion by 2030. FTP 2023 outlines the intent and roadmap for establishing e-commerce hubs and related elements such as payment reconciliation, book-keeping, returns policy, and export entitlements. As a starting point, the consignment wise cap on E-Commerce exports through courier has been raised from ₹ 5 Lakh to ₹ 10 Lakh in the FTP 2023. Depending on the feedback of exporters, this cap will be further revised or eventually removed.Integration of Courier and Postal exports with ICEGATE will enable exporters to claim benefits under FTP. The comprehensive e-commerce policy addressing the export/import ecosystem would be elaborated soon, based on the recommendations of the working committee on e-commerce exports and inter-ministerial deliberations.Extensive outreach and training activities will be taken up to build capacity of artisans, weavers, garment manufacturers, gems and jewellery designers to onboard them on E-Commerce platforms and facilitate higher exports.

Facilitation under Export Promotion of Capital Goods (EPCG) Scheme

The EPCG Scheme, which allows import of capital goods at zero Customs duty for export production, is being further rationalized. Some key changes being added are:

- Prime Minister Mega Integrated Textile Region and Apparel Parks (PM MITRA) scheme has been added as an additional scheme eligible to claim benefits under CSP(Common Service Provider) Scheme of Export Promotion capital Goods Scheme(EPCG).
- Dairy sector to be exempted from maintaining Average Export Obligation – to support dairy sector to upgrade the technology.
- Battery Electric Vehicles (BEV) of all types, Vertical Farming equipment, Wastewater Treatment and Recycling, Rainwater harvesting system and Rainwater Filters, and Green Hydrogen are added to Green Technology products – will now be eligible for reduced Export Obligation requirement under EPCG Scheme

Facilitation under Advance authorization Scheme

Advance authorisation Scheme accessed by DTA units provides duty-free import of raw materials for manufacturing export items and is placed at a similar footing to EOU and SEZ Scheme. However, the DTA unit has the flexibility to work both for domestic as well as export production. Based on interactions with industry and Export Promotion councils, certain facilitation provisions have been added in the present FTP such as

- Special Advance Authorisation Scheme extended to export of Apparel and Clothing sector under para 4.07 of HBP on self-declaration basis to facilitate prompt execution of export orders – Norms would be fixed within fixed timeframe.
- Benefits of Self-Ratification Scheme for fixation of Input-Output Norms extended to 2 star and above status holders in addition to Authorised Economic Operators at present.

Comparison of Duty Exemption Schemes

Scheme	Objective	Key Benefits
Advance Authorization Scheme	Duty-free import of raw materials for exports	Flexibility for both domestic & export production
EPCG Scheme	Import of capital goods at zero customs duty	Supports industrial growth & exports
Common Service Provider (CSP) Scheme	Shared infrastructure for exporters	Reduces costs & boosts MSME participation

Merchanting trade

To develop India into a merchanting trade hub, the FTP 2023 has introduced provisions for merchanting trade. Merchanting trade of restricted and prohibited items under export policy would now be possible. Merchanting trade involves shipment of goods from one foreign country to another foreign country without touching Indian ports, involving an Indian intermediary. This will be subject to compliance with RBI guidelines, and won't be applicable for goods/items classified in the CITES and SCOMET list. In course of time, this will allow Indian entrepreneurs to convert certain places like GIFT city etc. into major merchanting hubs as seen in places like Dubai, Singapore and Hong Kong.

Conclusion

India's Foreign Trade Policy (FTP) 2023 plays a vital role in enhancing export competitiveness, streamlining trade regulations, and embracing technology-driven facilitation. By focusing on automation, merchanting trade, e-commerce expansion, and duty exemption schemes, the policy aims to position India as a major global trading hub.

Topic

Strategic Performance Management and Business Valuation (SPMBV)

ELECTIVES

Paper-20A

Strategic Performance Management and Business Valuation (SPMBV)

Practical issues as well as areas that can go wrong in a valuation exercise:

Restating of Valuation in Business Valuation

In the world of finance, business valuation is never a static exercise. It is a dynamic assessment influenced by internal performance, market conditions, regulatory environments, and investor sentiment. While traditional valuation methods such as discounted cash flows (DCF), market multiples, and asset-based models provide a structured approach, they depend on assumptions that can quickly become outdated—especially in times of uncertainty.

Restating of valuation refers to the re-evaluation and updating of a business's worth in light of new information or changing circumstances. This process is not merely a technical adjustment; it has deep implications for strategic planning, investor relations, fundraising, mergers and acquisitions, and even legal compliance.

Why Valuations Need Restating

In practice, valuation is often conducted at specific intervals or events: investment rounds, audits, acquisitions, or financial reporting cycles. However, during volatile periods, the assumptions underpinning these valuations may shift rapidly, necessitating a restatement.

Common triggers for restatement include:

1. **Market Volatility**
   - o Sudden changes in macroeconomic indicators, interest rates, or stock markets can invalidate previously accepted market comparables or discount rates.
2. **Regulatory Changes**
   - o New laws or compliance requirements (e.g., tax reforms, ESG mandates) can impact operational costs or risk profiles.
3. **Strategic Pivot or Business Model Change**
   - o If a company shifts from a product-based model to a subscription or platform model, revenue forecasting and valuation multiples must be adjusted accordingly.
4. **M&A Activity**
   - o Offers for acquisition or merger proposals often prompt fresh valuation assessments, requiring fair value alignment between buyer and seller.
5. **Financial Performance Deviations**
   - o Missed earnings targets, new revenue streams, or cost restructuring efforts can materially affect enterprise value.
6. **External Shocks**
   - o Events such as pandemics, wars, or geopolitical unrest often lead to massive revaluation across sectors, especially those highly sensitive to consumer demand and global supply chains.

Key Areas Affected in a Valuation Restatement

1. **Earnings Forecasts**
   - o Forecasted revenue and EBITDA must be recalibrated based on revised demand assumptions and input costs.
2. **Discount Rate / Cost of Capital**
   - o The Weighted Average Cost of Capital (WACC) must be re-estimated if there are significant shifts in risk-free rates, beta coefficients, or debt-equity structures.
3. **Growth Assumptions**
   - o Terminal growth rates and CAGR forecasts may need adjustment, especially for high-growth startups or industries hit by slowdown.
4. **Market Multiples**
   - o Industry benchmark multiples may shift rapidly based on investor sentiment or peer performance.
5. **Asset Valuation**
   - o Intangible assets, goodwill, or IPs may require reappraisal due to impaired performance or technological obsolescence.

Methods Used During Restatement

1. **Revised DCF Models**
   - o Scenario-based DCFs using multiple cases (pessimistic, base, optimistic) can capture a range of potential valuations.
2. **Re-Benchmarking Market Comparables**
   - o Peer companies used for valuation must be re-evaluated to reflect current price-to-earnings or EV/EBITDA ratios.
3. **Adjusting for Risk**
   - o Incorporating new country-specific risks, inflation expectations, or liquidity concerns through adjusted discount rates.

4. **Impairment Testing**
   - For financial reporting, particularly under IFRS or GAAP, valuation restatement may involve impairment reviews for goodwill or intangible assets.

Strategic Implications of Valuation Restatement

- **Investor Communication**
  - Restating valuations requires careful messaging, especially in investor presentations and earnings calls. Transparency is key to maintaining confidence.
- Deal Negotiation
  - Whether during M&A or capital raise, revised valuations can shift the negotiating power and deal terms.
- Employee Stock Options (ESOPs)
  - Valuation affects the strike price and attractiveness of ESOPs. A downward restatement can require re-pricing or legal considerations.
- Credit Terms and Covenants
  - Lenders may adjust loan terms, interest rates, or demand re-collateralization if asset values are revised downward.

Case Study:

Zylotech Analytics – Revising Valuation Post-Pandemic

Company: Zylotech Analytics Industry: SaaS-based Customer Intelligence Original Valuation (Pre-COVID): $450 million (based on ARR growth of 80%, robust client pipeline) Context: In Q2 2020, the pandemic drastically slowed client acquisition cycles and delayed key renewals. Despite strong fundamentals, cash flows declined and churn increased temporarily.

Key Steps Taken:

1. **Performance-Based Reforecasting**
   - Revenue projections were revised to reflect longer sales cycles and increased customer scrutiny.
2. **WACC Adjustment**
   - The company's perceived risk increased, prompting a revision of WACC from 9.5% to 11.8%.
3. **Revised DCF Modeling**
   - Instead of a single DCF, Zylotech used scenario modeling:
     - Pessimistic (growth halts for 2 years) → $280M valuation
     - Base case (moderate recovery in 12 months) → $350M
     - Optimistic (recovery in 6 months + new product launch) → $410M
4. **Market Comparables Update**
   - Peer SaaS companies had seen reduced EV/Revenue multiples drop from 10x to 6-7x. Zylotech adjusted its comparable analysis accordingly.

Outcome:

- The revised mid-range valuation of $350M was used for an internal funding round with existing investors.
- The transparent restatement allowed the firm to avoid a down round by aligning expectations early.
- Within 18 months, the valuation rebounded past $500M as retention improved and product-market fit deepened.

Best Practices for Restating Valuation

1. **Use Conservative Assumptions**
   - Especially during uncertainty, adopt conservative growth and risk estimates to avoid future downward corrections.
2. **Document Assumptions Clearly**
   - Keep a detailed record of assumptions, benchmarks, and model choices to explain the rationale to stakeholders.
3. **Engage Independent Valuers**
   - For credibility and compliance, particularly when valuations are tied to equity compensation or IPO readiness.
4. **Align with Strategic Direction**
   - Ensure that the restated valuation aligns with the company's evolving goals and investment narrative.
5. **Maintain Flexibility**
   - Use ranges rather than fixed values. A valuation band gives room to accommodate changes and facilitates better negotiation.

Broader Implications of Valuation Restatement

1. Stakeholder Perception and Confidence

Valuation restatement can have significant psychological and reputational effects. A downward revision may be perceived negatively by the market, leading to reduced investor confidence or hesitancy in upcoming funding rounds. However, when communicated transparently and backed by well-articulated reasoning, restatements can actually enhance credibility. Investors, especially institutional ones, appreciate when companies demonstrate the maturity to revise forecasts and valuations in alignment with macroeconomic realities.

This is particularly relevant in startup ecosystems. Over-valuation during bull markets can lead to inflated expectations, which may later translate into investor disputes, employee attrition (due to worthless options), or stalled IPO plans. Proactive restatement helps align internal stakeholders and external partners on what is realistically achievable.

2. Regulatory and Compliance Requirements

In some jurisdictions and sectors, especially for publicly listed companies or those under international financial reporting frameworks (IFRS/GAAP), restating valuations is not just prudent—it is legally mandated. For example:

- Goodwill impairment testing is an annual requirement, but must be triggered immediately upon indicators of a decline in asset value.
- Private equity funds and venture capital firms often need to restate portfolio valuations to align with mark-to-market standards for investor reporting.

Moreover, tax authorities may scrutinize valuation changes, especially if they affect stock option pricing, asset write-downs, or inter-company transfers. This underlines the importance of audit-ready documentation and consistency in valuation methodology.

3. Future-Oriented Valuation: Beyond Financials

Traditional valuation focuses heavily on tangible assets and financial performance. However, in the modern business environment, non-financial metrics—such as ESG compliance, customer satisfaction, brand equity, and digital readiness—are becoming material drivers of enterprise value. Companies may need to restate valuations based on ESG risks (e.g., carbon pricing, supply chain sustainability) or cybersecurity events.

In this evolving landscape, businesses must integrate integrated reporting frameworks and advanced data analytics into their valuation processes. Scenario analysis, real-time market feeds, and AI-powered financial forecasting are becoming standard components of modern valuation toolkits.

The Role of Review and Revision in Enterprise Performance Management

The Role of Review and Revision in Enterprise Performance Management

Enterprise Performance Management integrates strategic planning, budgeting, forecasting, monitoring, and performance measurement to align business activities with organizational goals. Within this system, review is the process of evaluating current performance against goals, while revision involves modifying targets, strategies, or execution plans in response to new insights or changing conditions.

In uncertain times, review and revision are no longer occasional check-ins—they become central, continuous functions that drive strategic agility.

Why Review and Revision Are Critical During Uncertainty

1. **Rapid Market Shifts**

   Disruptions such as technological advances, geopolitical changes, or global pandemics can invalidate long-term plans overnight. Frequent reviews ensure the organization remains aligned with current realities.

2. **Data Obsolescence**

   What was true last quarter may not apply today. Regular revisions to assumptions and metrics help ensure decisions are based on the most relevant data.

3. **Dynamic Resource Allocation**

   Uncertainty often brings scarcity. Quick reallocation of resources based on real-time insights can optimize performance and prevent resource drain.

4. **Evolving Customer Behavior**

   Shifts in consumer demand or sentiment require businesses to update their value propositions and KPIs accordingly.

5. **Cross-Functional Impact**

   Disruptions typically affect multiple departments simultaneously. Integrated performance reviews promote cross-functional alignment and collaboration.

Key Components of Effective Review and Revision in EPM

1. Real-Time Monitoring and Dashboards
   - Use of real-time analytics to track KPIs and business metrics.
   - Dashboards provide visibility into critical areas like sales, finance, operations, and customer engagement.
2. Frequent Performance Check-ins
   - Monthly or even bi-weekly performance reviews instead of annual appraisals.
   - These check-ins help identify deviations early and encourage proactive intervention.
3. Rolling Forecasts and Plans
   - Replace static annual plans with rolling forecasts that are updated periodically (e.g., quarterly or monthly).
   - Rolling forecasts incorporate the latest trends and are essential for effective revision.
4. Scenario Planning
   - Develop alternative performance plans under different scenarios (e.g., best case, base case, worst case).
   - Revisiting these scenarios regularly allows teams to pivot quickly.
5. Feedback Loops
   - Encourage bottom-up feedback during reviews to capture on-the-ground realities.
   - Empower managers and team leaders to suggest revisions to KPIs or strategies.
6. Integrated Business Planning (IBP)
   - Align operational planning with financial and strategic goals.
   - Revisions made in one area (e.g., sales) automatically reflect across supply chain, HR, and finance plans.
7. KPI Recalibration
   - Adjust performance indicators to reflect temporary or permanent changes in the external or internal environment.
   - For example, shifting from growth metrics to retention metrics during a downturn.

Review and Revision in Action: A Case Study

Company: OptiCare Health Solutions Industry: Healthcare Technology Challenge: Faced with a sudden drop in elective procedure volumes during a global pandemic, OptiCare experienced significant revenue declines and had to rapidly realign its enterprise performance goals.

Initial Situation:

- Annual KPIs were focused on expansion: new client acquisition, product launches, and geographic outreach.
- Resource allocation was heavily tilted toward growth projects and R&D.
- Review meetings occurred semi-annually, with limited ability to adapt mid-year.

Response Strategy:

1. Establishment of a Rapid Response EPM Team

   A cross-functional team was created to meet weekly and review organizational performance holistically. The team included stakeholders from finance, operations, IT, and HR.
2. KPI Redefinition
   - o Growth metrics were suspended.
   - o New metrics focused on client retention, platform uptime, patient safety, and digital engagement.
   - o Employee well-being metrics were introduced to gauge remote work adaptation.
3. Rolling Forecast Implementation

   The finance department shifted to a monthly rolling forecast model. Budgets were adjusted based on real-time cash flow visibility and hospital service demand.
4. Scenario Planning and Revision
   - o Three operational scenarios were modeled based on different recovery trajectories in the healthcare sector.
   - o These scenarios guided decisions on hiring, marketing spend, and tech development.
5. Communication and Alignment

   Weekly performance updates were shared company-wide to foster transparency. Managers were encouraged to submit revision proposals for any metrics or assumptions they deemed unrealistic or obsolete.

Outcomes:

- OptiCare reduced cash burn by 40% within the first quarter of adaptation.

- Customer satisfaction improved due to targeted retention efforts and digital support.
- Employee engagement scores rose, indicating confidence in leadership's responsive strategy.
- The review and revision framework became a permanent part of OptiCare's EPM process.

Best Practices for Review and Revision in EPM

1. Institutionalize Flexibility

   Make rolling reviews and revision protocols a built-in component of enterprise strategy—not an emergency response.

2. Balance Agility and Stability

   While frequent changes are necessary during uncertainty, avoid knee-jerk reactions. Focus on revisions that are data-driven and aligned with long-term goals.

3. Leverage Technology

   Use AI-powered dashboards, business intelligence tools, and integrated ERP systems to enable real-time tracking and data-informed revisions.

4. Build a Culture of Learning

   Create psychological safety for teams to admit when goals are no longer feasible and to propose revisions without fear of judgment.

5. Connect Reviews to Execution

   Tie revised goals directly to action plans, individual KPIs, and incentive structures to ensure accountability.

Future of Review and Revision in EPM

The frequency and quality of performance reviews and revisions will increasingly define an organization's competitiveness and adaptability. Here are some forward-looking trends:

- Predictive EPM Systems: AI tools will predict when a revision may be needed before issues arise, enabling preemptive adjustments.
- Continuous Strategy Alignment: Strategic plans will become living documents, constantly evolving based on reviews.
- People-Centric Metrics: Employee adaptability, resilience, and well-being will become standard KPIs in performance frameworks.
- Ecosystem Reviews: Future EPM will consider not just internal metrics, but ecosystem dynamics like partner performance and regulatory changes.

Deepening the Strategic Impact of Review and Revision

While review and revision practices are instrumental in short-term adaptation, their long-term strategic value lies in how they shape organizational learning and resilience. As uncertainty becomes a defining feature of the global business landscape, high-performing enterprises treat EPM not merely as a reporting function, but as a **strategic decision-making platform**.

Organizations that excel in EPM often integrate **feedback from multiple layers**—including customers, employees, suppliers, and regulators—into their review processes. This multi-source input makes revisions more grounded and holistic. For instance, customer feedback might indicate declining satisfaction with a digital product; a timely review that incorporates this insight allows for swift revision in development priorities or support resources.

Embedding EPM into Organizational Culture

One of the biggest challenges in implementing agile EPM is overcoming the cultural inertia that favors predictability and linear planning. Senior leaders must champion a mindset shift where **reviewing is not seen as a sign of failure**, but as an essential step toward continuous improvement. In fact, when EPM is seen as a learning mechanism, employees become more proactive in identifying gaps, innovating solutions, and contributing to strategic agility.

To embed this culture:

- **Leadership messaging** should reinforce the importance of responsiveness over rigid adherence to outdated goals.
- **Performance incentives** should reward adaptability, problem-solving, and team collaboration — especially during volatile periods.
- **Training programs** can help managers interpret performance data and make smart, contextual revisions.

Connecting Review and Revision to Risk Management

Enterprise risk management (ERM) and EPM are often siloed in traditional organizational structures. However, uncertain times call for their integration. Effective reviews should include **risk dashboards** that monitor external threats (such as market fluctuations, legal changes, or supply chain vulnerabilities) alongside internal performance indicators.

When risk data feeds into the performance review cycle, revisions become more forward-looking. For example, a rising geopolitical risk index might not immediately affect quarterly revenues, but a smart EPM system would use it to revise supply chain assumptions or contingency plans.

Technology as an Enabler of Smarter Revisions

The evolution of technology—especially cloud-based EPM platforms, AI-driven analytics, and real-time business intelligence tools—has revolutionized how organizations approach review and revision. Today's tools can automate trend analysis, trigger alerts for KPI deviations, and simulate future scenarios based on updated data inputs.

For example:

- **Predictive analytics** can detect early signs of performance slippage.
- **Machine learning algorithms** can analyze large datasets to recommend which business units or projects require recalibrated goals.
- **Digital twins**—virtual models of operations—can be used to test revisions in a risk-free environment before real-world implementation.

By leveraging these technologies, companies can make revision cycles faster, more accurate, and more strategically aligned.

The Human Element: Empowering Managers and Teams

Even the most advanced systems cannot replace human judgment in interpreting nuance, assessing market context, or making values-based decisions. Therefore, empowering middle managers and team leads to actively participate in reviews—and propose revisions—is critical.

Practical steps include:

- Giving teams access to performance data relevant to their units.
- Providing decision-making authority to revise tactics within strategic guidelines.
- Encouraging regular team-level retrospectives that feed insights into broader enterprise reviews.

When the process of review and revision is democratized, it becomes a force multiplier for innovation and ownership.

Topic

Module 3 : Credit Risk and Liquidity Risk

Module 8 : Managing Risk in Insurance Business

ELECTIVES

Paper-20B

Risk Management In Banking and Insurance (RMBI)

Risk Management in Banking: Credit Risk and Liquidity Risk

Banks are very useful entity in the financial intermediary process in the economic system. Key role banks play in the economy is the maturity transformation. Banking is accepting deposits and transforming them into long term assets. In return for providing this service they make profit by charging more for a loan than then offer to pay on deposits.

Banks assume various risks, i.e. create chances of incurring future losses, in the process of allocating their deposits and other borrowings to loans and investments. Liquidity risk arises due to maturity transformation since banks borrower short and lend long to generate profit. Credit risk is inherent because banks are lending to counterparties to generate assets and therefore exposed to default risk. When market fluctuations are regulated or predictable, these risks and potential losses are small.

But, with globalization, innovation and competition, portfolios of Indian banks have become much more complex. In such an environment, only some risks are explicit while most others are hidden. Large losses from these latent risks are bunched during episodes like the global financial crisis. This is why Basel III advanced approaches (BCBS 2010) insists on detailed measurement of all possible risks, their correlations in normal markets and shifts in such correlations during stress situations.

Liquidity risk and credit risk are considered as the two important sources of banking risk. The global financial crisis has shown once again how challenging credit risk management and asset-liability management can be under banking competition. Fewer attempts by banks to reduce long term, liquid assets or short-term volatile liabilities culminated in the global financial crisis. The recent NBFCs crisis in India was also triggered by such problems. As banks fund their long-term assets with short-term liabilities, to increase net interest margins, they are exposed to liquidity risk. The possibility of sudden withdrawal of short-term deposits and other borrowings threatened the solvency of even reputed banks.

Credit risk arises due to uncertainty in a borrower's ability or willingness to meet its contractual obligations. Credit risk results in increase in the ratio of gross nonperforming assets in banks. Liquidity risk arises when banks are unable to meet its commitments on time due to unexpected cash outflow or unable to sell assets or investment loses its liquidity. All these may result in customer deposit runoff, fall in market value of the securities, increase in funding costs and fall in borrowing capabilities in banks.

Hence, liquidity risk is defined as the risk of being unable to meet the obligation of depositors or to fund increases in assets due to shortage of liquid assets in the financial entity. Liquidity Risk Management ensures that there is enough cash or near cash assets to repay maturing liabilities on time. Credit Risk Management ascertains that, despite some defaults and delayed payment, the overall quality of maturing assets is good enough to pay down liabilities as scheduled. A bank might expect the cash inflows from different assets to arrive in full and on time. The problem arises when some of its assets make delayed or partial payments and then bank can run into a funding deficit. Additionally, since banks accept deposits from savers and lend those funds to borrowers, a bank's asset and liability structures are closely connected, especially in terms of borrower's default and deposit outflows.

Several factors contribute to both credit and liquidity risks in Indian banks. Credit risk, stemming from borrower defaults, is influenced by economic conditions, borrower financial stability, and credit policies. Liquidity risk, arising from the inability to meet obligations, is affected by short-term funding reliance, asset-liability mismatches, and external shocks.

Factors Contributing to Credit Risk:

- **Economic Conditions**: Global and domestic economic downturns can negatively impact borrower ability to repay loans, increasing credit risk.
- **Borrower Financial Stability**: A borrower's financial health, including their ability to generate revenue and manage debt, is crucial for evaluating creditworthiness.
- **Industry and Market Conditions**: Specific industry trends and market conditions can affect borrower's ability to meet their obligations.
- **Credit Policies and Internal Controls**: Banks' internal credit policies and risk management procedures, including loan approval processes and monitoring, play a significant role in mitigating credit risk.
- **Loan Growth**: Rapid loan growth can increase the likelihood of defaults if not managed carefully.
- **Bank Size and Capitalization**: Larger banks with higher capital adequacy may be better equipped to handle credit risk losses.
- **Reputational Risk**: Negative publicity or scandals can damage a bank's reputation and impact its ability to attract and retain deposits, potentially leading to liquidity issues.

Liquidity risks in Indian banks arise from various internal and external factors, including asset-liability mismatches, reliance on short-term funding, and external economic shocks. These factors can lead to difficulties in meeting depositors' demands for funds and can potentially destabilize the banking sector.

Internal Factors:

Asset-Liability Mismatch: Indian banks often fund long-term loans with short-term deposits, creating a mismatch in maturity profiles. This can lead to liquidity issues if depositors withdraw funds before the bank can realize its assets.

Reliance on Short-Term Funding: Banks heavily rely on corporate deposits and other short-term funding sources, making them vulnerable to sudden withdrawal demands.

Poor Asset Quality: High levels of non-performing loans (NPLs) and slow recovery of overdue loans can reduce the bank's available liquid assets.

Limited Sources of Funding: The Indian banking system is dominated by a few large public sector banks, which can limit the availability of funding for smaller banks, particularly during times of stress.

Operational Risk: Operational issues, such as system failures or fraud, can hinder the bank's ability to meet liquidity needs.

Reputational Risk: Loss of confidence in a bank due to poor service, scandals, or fraud can lead to a bank run and liquidity crisis.

Low ROA: A low return on assets (ROA) may indicate that the bank is not efficiently using its assets to generate net income, potentially impacting liquidity.

External Factors:

Economic Shocks: External and internal economic shocks, such as changes in interest rates or global economic conditions, can affect funding costs and deposit inflows.

Market Volatility: Volatility in financial markets can affect the value of a bank's assets and liabilities, making it difficult to meet liquidity needs.

Regulatory Restrictions: Regulatory restrictions on borrowing and lending can limit a bank's ability to manage liquidity risk.

Decreasing Depositor Trust: Loss of confidence in the banking sector can lead to a rush of withdrawals by depositors.

Mitigation Strategies:

Asset-Liability Management (ALM): Effective ALM can help banks manage the mismatch between their assets and liabilities.

Diversifying Funding Sources: Banks should diversify their funding sources to reduce reliance on short-term deposits and wholesale funding.

Building a Strong Capital Base: A robust capital base can help banks absorb losses and withstand unexpected liquidity shocks.

Improving Asset Quality: Banks should focus on improving their loan portfolios and reducing NPLs.

Strengthening Risk Management: Robust risk management practices are crucial for identifying and mitigating liquidity risk.

Monitoring Liquidity Ratios: Banks should closely monitor their liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) to ensure they have sufficient liquid assets to meet withdrawal demands.

Factors Contributing to Liquidity Risk:

- **Maturity Mismatch**: A mismatch between the maturity of a bank's assets (loans) and liabilities (deposits) can create liquidity risk, particularly if depositors withdraw funds suddenly.
- **Reliance on Short-Term Funding**: Banks heavily reliant on short-term deposits and wholesale funding are more vulnerable to liquidity risk, as sudden withdrawals can create funding gaps.
- **Illiquid Assets**: A bank's portfolio heavily invested in illiquid assets (long-term loans) can make it difficult to meet short-term obligations quickly.
- **External Shocks**: Unforeseen economic or political events can disrupt funding flows and increase liquidity risk.
- **Loss of Depositor Trust**: If depositors lose confidence in a bank, they may withdraw funds, leading to a liquidity crunch.
- **Operational Risk**: Failures in internal processes, technology glitches, or human errors can lead to unexpected cash outflows and liquidity problems.
- **Cybersecurity Risk**: Cyberattacks can disrupt banking operations and lead to unexpected cash outflows, impacting liquidity.
- **Compliance Risk**: Failure to comply with regulations can result in penalties, fines, and reputational damage, potentially impacting liquidity.

Managing Risk in Insurance Business

Simply put, risk management involves identifying, assessing, and prioritising uncertainties and potential risks that could result in financial loss, and taking appropriate measures to mitigate them. In the insurance world, these uncertainties, termed 'risks', may span from damage to physical property, health issues, accidents, business interruptions, and more.

Insurance provides a financial safety net, protecting you from such risks by transferring the potential financial burden to the insurance company. When you buy an insurance policy, you're essentially managing risks that could otherwise negatively impact your financial status.

Businesses, especially new and small enterprises, confront a multitude of risks ranging from property damage and liability claims to data breaches and supply chain disruptions. Properly structured policies serve as insurance for risk management, providing financial protection and minimizing the impact of these potential risks.

Understanding the role of insurance within the broader context of enterprise risk management is essential for company success. Not only does this fulfil a legal requirement, it ensures the sustainability and growth of your business. When unexpected incidents occur, having the right insurance coverage grants businesses access to necessary funds and resources, helping to limit out-of-pocket expenses and facilitate a quicker recovery.

Insurance in risk management serves as a financial safety net, mitigating the impact of unforeseen events by not only identifying and monitoring such risks but also effectively transferring part of this risk through the policy. That's why new business owners must prioritize understanding and integrating insurance in risk management strategies to safeguard against unexpected challenges.

In the Indian insurance business, risk management is crucial for ensuring financial stability, protecting policyholders, and maintaining the overall health of insurance companies. It involves identifying, assessing, and mitigating various risks, including those related to investments, market conduct, and cyber security. Effective risk management practices help insurance companies navigate challenges and achieve strategic success.

This includes understanding the financial impact of various risks, such as claims, investments, and operational issues, and developing strategies to minimize potential losses.

Here's a more detailed look at risk management in insurance:

1. Identifying and Assessing Risks:

- ✓ **Underwriting Risk**: This involves evaluating the risks associated with individual policies and determining the appropriate premium. Insurers need to assess the likelihood of a claim occurring and the potential cost.
- ✓ **Investment Risk**: Insurance companies invest premiums to generate returns. They face risks related to market fluctuations, interest rate changes, and the value of their assets.
- ✓ **Operational Risk**: This includes risks related to internal processes, systems, and procedures, such as fraud, errors, and disruptions.
- ✓ **Regulatory Risk**: Insurance companies must comply with a complex regulatory environment, which can impact their business operations and financial performance.
- ✓ **Catastrophe Risk**: This refers to the risk of large-scale losses from events like natural disasters, which can significantly impact insurers' financial stability.

2. Risk Mitigation Techniques:

- ✓ **Diversification**: Insurers can diversify their portfolios to reduce the impact of any single loss. This includes diversifying investments, lines of business, and geographical regions.
- ✓ **Loss Control**: Implementing measures to reduce the likelihood and severity of losses. This can include preventative measures like building codes, safety training, and security systems.
- ✓ **Reinsurance**: Transferring a portion of the risk to another insurance company.
- ✓ **Risk Transfer**: Shifting the risk to another entity through contracts or other agreements.
- ✓ **Enterprise Risk Management (ERM)**: A comprehensive approach to managing all types of risks within the organization.

3. Key Steps in the Risk Management Process:

- ✓ **Establish a Context**: Understand the company's goals, objectives, and risk tolerance.
- ✓ **Identify and Assess Risks**: Conduct a thorough review of potential threats and their potential impact.
- ✓ **Develop a Risk Treatment Plan**: Determine how to manage identified risks, including mitigation strategies, risk transfer, and risk acceptance.
- ✓ **Implement and Monitor**: Put the risk management plan into action and track its effectiveness.

- ✓ **Review and Evaluation**: Regularly assess the risk management process and make necessary adjustments.

4. Why Risk Management is Important:

- ✓ **Financial Stability**: Proper risk management helps insurance companies maintain their financial strength and solvency.
- ✓ **Policyholder Protection**: Protecting policyholders from the financial consequences of unforeseen events is a core responsibility of insurance companies.
- ✓ **Compliance**: Adhering to regulations and legal requirements related to risk management.
- ✓ **Reputation**: Building and maintaining a strong reputation for reliability and financial stability.

5. Tools and Technologies:

- ✓ **Risk Management Software**: Tools to automate risk assessment, monitoring, and reporting.
- ✓ **Data Analytics**: Using data to identify patterns, trends, and potential risks.
- ✓ **Scenario Modelling**: Developing models to simulate different risk scenarios and assess their potential impact.

Key Aspects of Risk Management in Indian Insurance:

- ✓ **Identification and Assessment**: Insurance companies need to identify and assess various risks, including investment risks, market conduct risks, cyber security risks, and operational risks. This involves understanding the likelihood and potential impact of each risk on the company's operations and financial health.
- ✓ **Mitigation and Transfer**: Once risks are identified and assessed, insurance companies need to develop and implement strategies to mitigate or transfer them. This can involve a range of techniques, including purchasing reinsurance, hedging financial guarantees, using derivative instruments, and implementing strong internal controls.
- ✓ **Risk Register and Monitoring**: A risk register should be maintained to track identified risks and monitor their progress. This helps ensure that risks are continuously monitored and that appropriate actions are taken to mitigate them.
- ✓ **Cybersecurity**: With the increasing use of technology in the insurance industry, cybersecurity has become a major concern. Insurance companies need to implement robust cybersecurity measures to protect their data and systems from cyberattacks.
- ✓ **Market Conduct Risk**: Market conduct risk refers to the risk of insurance companies engaging in unethical or misleading practices. To mitigate this risk, insurance companies need to ensure transparency, follow ethical sales policies, and put strict processes in place for sales.
- ✓ **Regulatory Risk**: Indian insurance companies also face regulatory risk, which is the risk of changes in regulations that could impact their business operations. To manage this risk, insurance companies should adopt best practices before they are mandated and be aware of any emerging regulatory changes.
- ✓ **Emerging Risks**: Emerging risks, such as those related to climate change, data security, and technological disruptions, are also important for insurance companies to address.
- ✓ **Third-Party Risks**: Third-party insurance brokers can pose significant risks, particularly in terms of data security. Insurance companies need to implement strong controls to manage these risks.
- ✓ **Leadership Commitment**: Effective risk management requires strong leadership commitment at all levels of the organization. Leaders need to emphasize the importance of safety, compliance, and ethical behaviour, and ensure that risk management is integrated into all aspects of the business.

Practical Examples of Risk Management Strategies:

To better grasp the concept of Risk Management in Insurance, few examples are:

- ✓ **Auto Insurance**: Risk factors may include the driver's age, experience, driving record, and the vehicle's model. Risk management strategies involve choosing the right insurance policy that covers liability, collision, and comprehensive risks.
- ✓ **Home Insurance**: Risks involve potential damage from fire, theft, natural disasters, and liability incidents. Risk management includes insuring the house to its accurate replacement cost, including necessary endorsements for valuable items, and considering a personal liability umbrella policy.
- ✓ **Business Insurance**: A business faces risks from liability claims, property damage, business interruptions, and workers' injuries. Risk management might involve purchasing a business owners' policy, a workers' compensation policy, and possibly a commercial umbrella policy.
- ✓ **Health Insurance**: The primary risk is the financial burden caused by illnesses or accidents. Managing these risks might involve purchasing a health insurance policy that covers a broad range of medical services and prescription drugs, and possibly adding supplemental policies for specific risks like critical illness or disability.

Topic

Module 7 : Leadership

ELECTIVES

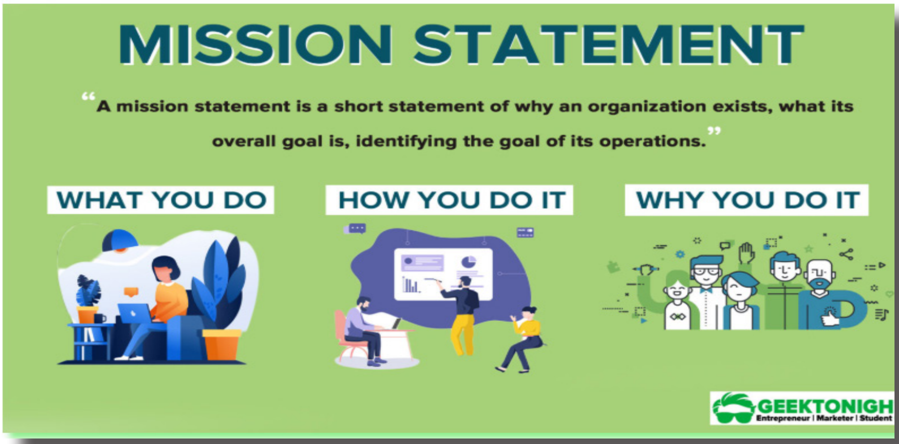
Paper-20C

Entrepreneurship and Start Up (ENTS)

Leadership Mission Driven Ventures and Organisations

1. Mission Statement

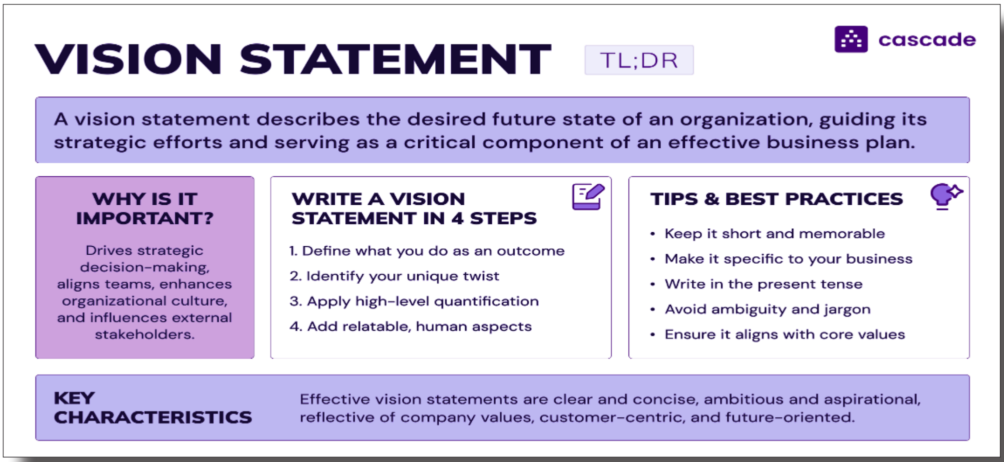
A mission statement is a concise declaration outlining an organization's purpose and the reasons for its existence. It defines the organization's core values, goals, and the impact it aims to make, guiding decision-making and communicating its commitment to stakeholders.



Source: https://www.geektonight.com/mission-statement/

2. Vision Statement

A vision statement outlines an organization's desired future state, typically over a longer timeframe (5-10 years or more), and serves as a guiding principle for its internal decision-making and external communication. It's a declaration of what the organization hopes to achieve and how it wants to be perceived.



Source: https://clay.global/blog/vision-statement

3. How to develop a Vision and Mission Statement?

Developing a vision and mission statement in management and leadership may seem daunting, but it's a process that can help clarify your organization's purpose and future. Here are some clear steps to guide you through the process:

(i) **Understand Your Organization's Core Values**: Before you can define a vision or mission, you need to understand what truly matters to your organization. Reflect on your company's values, culture, and long-term aspirations.

(ii) **Create a Compelling Vision Statement**: The vision should be aspirational, describing where you want the organization to be in the future. Think big and be specific about the long-term goals you want to achieve.

(iii) **Define Your Mission Statement**: The mission statement should focus on the present, detailing what your company does, how it serves its customers, and what sets it apart. It should be clear, concise, and actionable.

(iv) **Involve Key Stakeholders**: Vision and mission development in management and leadership should be a collaborative effort. Involve leaders, employees, and even customers in the process to ensure that everyone's perspectives are considered.

(v) **Review and Refine:** Once you've drafted your vision and mission statements, review them regularly to ensure they remain aligned with your company's evolving goals and the market environment.

4. Challenges in Vision and Mission Development

While vision and mission development in management and leadership is crucial, it doesn't come without its challenges. Many organizations face obstacles along the way that can hinder the creation of these essential statements. Here are some common challenges:

(i) **Lack of Clarity**: One of the biggest hurdles is not having a clear understanding of the organization's core values and long-term goals. Without this foundation, creating an effective vision and mission becomes difficult.

(ii) **Misalignment with Stakeholders**: Getting everyone on the same page can be challenging. Different teams, leaders, or stakeholders might have varying ideas about the company's purpose and direction, leading to confusion and disagreement.

(iii) **Overcomplicating the Process**: Sometimes, companies try to overcomplicate their vision and mission statements, making them too vague, lengthy, or complicated. This can dilute their impact and confuse employees.

(iv) **Failure to Adapt**: As the organization grows and the market evolves, the vision and mission must evolve as well. Many companies struggle with adapting these statements to changing circumstances, which can leave them feeling outdated.

(v) **Lack of Employee Engagement**: Developing a vision and mission without involving employees can result in statements that feel disconnected from the workforce. Employee buy-in is essential for these statements to have real impact.

(Source:https://www.bmc.net/blog/management-and-leadership-articles/vision-and-mission-development-for-leaders)

5. Key Elements of Mission Statement

Following the key elements of mission statement:

(i) **Purpose:** The mission statement should clearly state the core reason for the organization's existence, outlining its fundamental purpose.

(ii) **Values:** The mission statement should reflect the organization's core values, beliefs, and ethical principles that guide its actions and decision-making.

(iii) **Target Audience/Customers:** The mission statement should identify the specific group or community that the organization aims to benefit or impact.

(iv) **Uniqueness:** The mission statement should highlight the organization's unique features, strengths, or qualities that differentiate it from competitors.

(v) **Goals and Outcomes:** The mission statement should outline the organization›s main objectives, desired outcomes, and the overall direction it is headed.

(vi) **Specificity and Clarity:** The mission statement should be specific and precise, avoiding vague or ambiguous language.

(vii) **Concise and Memorable:** The mission statement should be easy to remember, understand, and communicate.

(viii) **Action-Oriented**: The mission statement should provide a sense of direction and guide the organization's actions toward achieving its goals.

(ix) **Inspirational and Motivational**: The mission statement should inspire and motivate employees and stakeholders to work towards a common purpose.

6. Key Elements of Vision Statement

Important elements of vision statement are mentioned below:

(i) **Future-Oriented:** A vision statement should paint a picture of what the organization aspires to become in the future, rather than focusing on the present.

(ii) **Inspirational and Motivating:** The vision should be compelling and inspire employees, stakeholders, and leadership to work towards a common goal.

(iii) **Clear and Concise:** The statement should be easy to understand and avoid jargon or complex language.

(iv) **Aligned with Values:** The vision should reflect the organization's core values and mission, creating a sense of unity and purpose.

(v) **Realistic and Achievable:** While aspirational, the vision should be achievable with effort and resourcefulness.

(vi) **Concise and Memorable:** A good vision statement is short and to the point, making it easy for people to remember and share.

7. Mission Statement Vs Vision Statement

Mission Statement	Vision Statement
Present-oriented (what we do now)	Future-oriented (what we want to be)
Defines WHY (purpose and values)	Describes the desired future state
Action-oriented	Aspirational
Answers: "What do we do?"	Answers: "What do we want to become?" (impact)

8. Leadership and Corporate Vision Statement

Leadership is the driving force behind a corporate vision statement. Leaders articulate a desired future state (the vision), and then guide the organization toward that future, ensuring alignment and accountability across all levels.

Leadership ensures the vision is aligned with the company's core values and mission, creating a shared understanding of what the organization stands for and what it seeks to achieve.

From the other side, Visions help leaders set "the future agenda" and convey the leader's intrinsic beliefs and values to followers. Visionary leaders amplify the values that attract followers to an organization or movement.

9. Concept-based vision statements

A concept-based vision statement describes what a company aims to become, focusing on abstract goals or desired future positions rather than specific, measurable outcomes. This can be a general statement focused on customers, or a position the company wants to hold within the industry.

Below are a few examples of concept-based vision statements:

1) **BBC:** "To be the most creative organization in the world"

2) **Disney:** "To make people happy."

3) **Google:** "To provide access to the world's information in one click"

4) **IKEA:** "To create a better everyday life for the many people"

5) **Instagram:** "Capture and share the world's moments"

6) **LinkedIn:** "Create economic opportunity for every member of the global workforce"

7) **Microsoft:** "To help people throughout the world realize their full potential"

8) **Nike:** "To bring inspiration and innovation to every athlete in the world"

9) **Oxfam:** "A just world without poverty"

10) **Shopify:** "To make commerce better for everyone"

11) **Sony:** "To be a company that inspires and fulfills your curiosity."

12) **TED:** "Spread ideas"

13) **Tesla:** "To accelerate the world's transition to sustainable energy"

14) **Uber:** "We ignite opportunity by setting the world in motion"

15) **Whole Foods**: "To nourish people and the planet."

10. Quality-based vision statements

A "quality-based vision statement" means a vision statement that prioritizes and focuses on achieving high-quality products, services, and overall outcomes within an organization. It outlines the organization's desired future state where quality is a core element of its success and influence. These include the type of products and services the company hopes to provide as they grow. Quality-based vision statements can also relate to company culture and operations. The following are some examples from actual United States companies in different industries:

1) **Amazon:** "Our vision is to be earth's most customer-centric company, where customers can find and discover anything they might want to buy online."

2) **Avon:** **"**To be the company that best understands and satisfies the product, service, and self-fulfillment needs of women—globally."

3) **Ben & Jerry's:** "Making the best ice cream in the nicest possible way"
4) **Ford:** "People working together as a lean, global enterprise to make people's lives better through automotive and mobility leadership."
5) **IBM:** "To be the world's most successful and important information technology company. Successful in helping our customers apply technology to solve their problems. Successful in introducing this extraordinary technology to new customers. Important because we will continue to be the basic resource of much of what is invested in this industry."
6) **McDonald's:** "To move with velocity to drive profitable growth and become an even better McDonald's serving more customers delicious food each day around the world."
7) **Nordstrom:** "To serve our customers better, to always be relevant in their lives, and to form lifelong relationships"
8) **Starbucks:** "To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow."
9) **Warby Parker:** "We believe that buying glasses should be easy and fun. It should leave you happy and good-looking, with money in your pocket. We also believe that everyone has the right to see."
10) **Zappos:** "To provide the best customer service possible. Deliver 'WOW' through service"

SAIL's vision to be a "world class corporation and the leader in Indian steel business in quality," and Havells' vision to be "globally recognized for excellence.

MISSION

"At the Tata Group, our purpose is to improve the quality of life of the communities we serve. We do this through leadership in sectors of national economic significance, to which the Group brings a unique set of capabilities."

(www.tata.com)

VISION

*"The Tata name is a unique asset representing **LEADERSHIP WITH TRUST**. Leveraging this asset to unify our companies is the route to long-term success and delivery of returns to the shareholder in excess of the cost of capital."*

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Ref. No.: DOS/SKILLS TRAINING/6/2025 **Date: June 4th, 2025**

CIRCULAR

Sub: Skills Training Program for Intermediate & Final Level Students appearing in June 2025 Term Examinations

It is hereby clarified that students appearing for the Intermediate & Final Examinations in June 2025 term shall complete all Skills Training activities including successful completion of assignments, as applicable, by **31st August, 2025.**

This is for information of all concerned.

Dr. Madhumita Sen Gupta
Joint Director & HoD - Studies
(Training & Central Stores)

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Invitation to Contribute Articles for CMA Student E-Bulletin - Showcasing Your Expertise!

Dear CMA Student,

We are excited to extend an invitation to you to contribute an article for the **CMA Student E-Bulletin,** our esteemed monthly e-journal exclusively crafted for CMA students. This platform, managed by the Directorate of Studies at ICMAI, aims to provide a space for your insights, experiences and knowledge-sharing within the CMA community.

Submission Guidelines:

- **Article Length:** Please prepare articles ranging between 1200 to 1500 words.
- **Topic:** The articles can cover a wide spectrum of subjects, including but not limited to advancements in finance, industry insights, case studies, personal experiences and emerging trends in the field.
- **Originality:** We encourage you to share your unique perspectives and experiences. Ensure that your submission has not been published elsewhere.

Submission Deadline: We kindly request you to submit your article by **20th of the previous month of publication.** This will allow us ample time to review and prepare the upcoming issues of the CMA Student E-Bulletin.

Submission Process: Please send your article to *studies.ebulletin@icmai.in* with the subject line **"CMA Student E-Bulletin Submission - [Your Name, Registration No.]".** Include a brief author bio and a high-resolution photograph to be featured alongside your article.

Recognition and Rewards: Selected articles will be featured prominently in the CMA Student E-Bulletin, providing you with a valuable platform to showcase your expertise. Additionally, authors of published articles will be acknowledged and the top contributors may be eligible for special recognition and rewards.

We believe that your unique insights and experiences will contribute significantly to the enrichment of the CMA Student E-Bulletin. Your participation will not only enhance your visibility within the CMA community but also foster a culture of knowledge-sharing and collaboration.

Best Regards,

Team DoS
The Institute of Cost Accountants of India

E-mail – studies.ebulletin@icmai.in

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NEW IT INITIATIVE TO PROVIDE ENHANCED FACILITIES TO CMA STUDENTS

A login feature has been integrated into the **ONLINE REGISTRATION APPLICATION SYSTEM** enabling students to access various services through their accounts.

To utilize this feature, students need to create a login account by verifying their email address through an OTP sent to their registered email ID. Once the email ID is verified, it becomes the user ID and students can set their password during the account creation process.

The introduced system enables students to:

- Register online for Foundation, Intermediate & Final Courses
- Check the status of their online applications
- Request Conversion from Old Syllabus to New Syllabus
- Request changes in Oral / Postal Coaching and opt for Chapter-to-Chapter Conversion
- Convert from Provisional to Regular status

Additional services for students will be seamlessly incorporated in the near future.

Behind every successful business decision, there is always a **CMA**

NOTES

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NOTES

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