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CMA Student E - Bulletin

FINAL

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CONTENTS

KNOWLEDGE Update

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

GROUP: 3, PART: 13

CORPORATE
LAWS & COMPLIANCE - (CLC)

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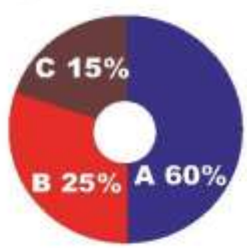
Your Preparation Quick



Syllabus Structure
A Companies Act 60%
B Other Corporate Laws 25%
C Corporate Governance 15%

Learning Objectives:

Read the Study Material minutely.

- For details or if you don't understand Study Material or the section is important to identify the topic, then refer to Bare Act, otherwise reference to Bare Act is not necessary. For Company Law, book by Avtar Singh is recommended. For other laws Institute Study Material is sufficient.
- The words used in any of the texts as mentioned above should be understood by immediate reference to the Dictionary.
- The main points coming out in any of the provisions should be either underlined or written in separate copy which has to be repeated again and again.
- Theoretical knowledge should be adequate and clear before solving practical problems.
- Don't write wrong English. It changes the meaning and therefore answer may be wrong even when the student's conception is clear. Also don't make spelling mistakes.

COMPANY CAPITAL

Any business including a company will have two sources of capital, i.e. own capital (equity) and loan capital. (long term credit), there can be a financial instrument which is converted from loan to equity. Normally equity is not converted into loan, though there is no legal bar.

Shares and Debentures

Shares and debentures are the main source of long term source of capital. Companies Act does not consider working capital as capital and therefore the restrictions relating to treatment of capital do not apply to working capital.

Shares defined

A share is defined as unit of ownership that represents an equal proportion of a company's capital. It entitles its holder (the shareholder) to an equal claim on the company's profits and an equal obligation for the company's debts and losses.

Two major types of shares are (1) **ordinary (equity) shares (common stock),** which entitle the shareholder to share in the earnings of the company as and when they occur, and to vote at the company's general meetings of shareholders, and (2) **preference shares (preferred stock**) which entitle the shareholder to a fixed predetermined rate of dividend but generally do not have voting rights. The dividend is payable only when the Company makes adequate profits. This kind of shares is preferred for both payment of dividend and the payment of principal (redemption) on liquidation. Otherwise also
preference shares have to be redeemed within 10 years (20 years in case of infrastructure companies)

Types of Share Capital:

There are various terms used in connection with the share capital of the company. They are as follows:

Authorized / Registered / Nominal Capital-

This is the Maximum Capital which the company can raise in its life time. This is mentioned in the Memorandum of the Association of the Company. It is also called Registered Capital or Nominal Capital. Authorised capital may be increased by altering the Memorandum of Association.

Issued Capital-

This is the part of the Authorised Capital which is issued to the public for Subscription i.e. any person to whom the invitation is made may subscribe for shares. Private limited companies can issue shares to its existing shareholders by way of rights issue or by way of giving them bonus shares or it can issue securities through private placements. The act of creating new issued shares is called issuance, allocation or allotment. After allotment, a subscriber becomes a shareholder. The number of issued shares is a subset of the total authorized shares.

Subscribed Capital-

The issued Capital may not be fully subscribed (applied for) by the investor/public. Subscribed Capital is that part of issued Capital for which applications are received from the public. In case applications are for more than the issued capital we call it oversubscription. If it is less, it is called under subscription.

Paid-up Capital-

The part of subscribed capital which have been paid to the company by the investors i.e. the Company may require 50% of the value of shares while making subscriptions. In such case 50% of the value received by the company shall be the paid up capital.

For any company, paid-up capital is important as many provisions of the Act and Rules require various types f compliances based on paid-up capital.

Debentures

A debenture is a type of long term debt instrument which acknowledges debt.

Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital. Debentures may be secured or unsecured.

Types of Debenture:

The major types of debentures are redeemable, irredeemable, convertible, non-convertible, fully, partly, secured, unsecured, fixed, floating rate, zero coupon, deep discount. Following are the various types of debentures vis-a-vis their basis of classification:

Redeemable and Irredeemable (Perpetual) Debentures

Redeemable debentures carry a specific date of redemption on the certificate. The company is legally bound to repay the principal amount to the debenture holders on that date. On the other hand, irredeemable debentures, also known as perpetual debentures, do not carry any date of redemption. This means that there is no specific time of redemption of these debentures. They are redeemed either on the liquidation of the company or when the company chooses to pay them off to reduce their liability by issues a due notice to the debenture holders beforehand.

Convertible and Non-Convertible Debentures

Convertible debenture holders have to convert their holdings into equity shares. The rate of conversion and the period after which the conversion will take effect are declared in the terms and conditions of the agreement of debentures at the time of issue. On the contrary, non-convertible debentures are simple debentures which will continue to be debentures till redemption. However, if option is given to the investor to convert or not to convert the debenture into shares, this kind of debenture is called optionally convertible debentures.

Fully and Partly Convertible Debentures

Convertible Debentures are further classified into two – Fully and Partly Convertible. Fully convertible debentures are completely converted into equity whereas the partly convertible debentures have two parts. Convertible part is converted into equity as per agreed rate of exchange based on terms of issue. Non-convertible part remains as redeemable debenture which is repaid after the expiry of the agreed period.

Secured and Unsecured Debentures

When the debenture is secured by the charge on some asset or set of assets it is known as secured or mortgage debenture and when it is issued solely on the credibility of the issuer is known as the naked or unsecured debenture. In case of unsecured debenture, the Debenture holder is like any other unsecured creditor. In case of secured debenture, there is a security created by the company on its assets. In case of issue of debenture on private placement basis, the security can be decided by the issuer company and the investor. Public issue of debentures have to be secured, if the maturity period is more than 18 months. In such case, a debenture trustee is appointed, to whom the security is mortgaged with a condition that if the company fails to repay interest or principal, the debenture trustee shall have right to sale off the property and satisfy the claims of debenture holders both interest and principal.

Fixed and Floating Rate Debentures

Fixed rate debentures have fixed interest rate over the life of the debentures.

The floating rate debentures have the floating rate of interest which is dependent on some benchmark rate and goes on fluctuating depending on market conditions.

Zero Coupon Debentures

Zero coupon debentures do not carry any coupon rate (interest) or we can say that there is zero coupon rate. The debenture holder will not get any interest on these types of debentures. In such case a warranty is issued with a debenture which may have entitlement to get a share at discount. This compensates the interest foregone. However, zero coupon rate debentures may be issued at discount and are normally called "discounted bonds". If the maturity period is long it is called "deep discount bond".

Raising of Capital

IPO

FPO

Public issue of share means getting subscription (money) from general public through prescribed procedure, after which shares can be traded in stock exchange. This is called listing of shares. However, if company do not want listing, it can issue to any person or institutional, which is called private placement.

PROSPECTUS

Any notice / circular / advertisement / other documents inviting deposits from the public or offer from the public for the subscription or purchase of any shares in or debentures of a body corporate. In simple words, a prospectus means a document issued by a company which seeks to invite:

a. Public deposits, or,
b. Offers from the public to subscribe to its shares / debentures.

CONTENTS OF PROSPECTUS

1. Name and address of registered office of the company
2. Name of stock exchange where the present issue to be listed.
3. Declaration about minimum subscription.
4. Date of opening of issue
5. Date of closing of issue
6. Name and address of auditors and lead managers
7. Name and address of underwriters and the amount underwritten by each of them.
8. Terms of present issue
9. Particulars of the issue
10. particulars about company, management and project
11. Financial information report of accounts.

MINIMUM SUBSCRIPTION

Minimum Subscription implies the minimum amount which in the opinion of the Board of Directors, must be raised by the issue of the share capital.

2. No company shall proceed to allot shares unless the amount stated as minimum subscription in the prospectus has been subscribed to the extent of 90% within 90 days of closure of subscription list.

3. Where a company fails to receive 90% of minimum subscription within 90 days of closure of the issue, the company must return the money to the applicants within the next 10 days otherwise if later then with the prescribed rates of interest also.

GROUP: 3, PART: 14

STRATEGIC
FINANCIAL MANAGEMENT - (SFM)

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Your Preparation Quick

Syllabus Structure

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

Learning Objectives:

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

- understand the direct and indirect quotations
- know the European terms and American terms

Section C & Study Note 8: Security Analysis and Portfolio Management

Continued from previous issue….

- **Risk Involved in a Government Securities**

The various types of risks stated earlier are mostly related to private securities. Government securities, however, do not involve all of them. For example –

a. **Default Risk:** Default risk in the context of a Government Security is always zero. However, they may suffer maturity risk which is the risk associated with the likelihood of Government issuing a new security in place of redeeming the existing security.

b. **Re-investment Risk:** Government securities suffer from re-investment risk. It is the risk that the rate at which the interim cash flows are re-invested may fall thereby affecting the returns.

c. **Interest Rate Risk:** Government securities also suffer from interest rate risk. However, this risk can be completely eliminated in case an investor's investment horizon (intended period of holding) identically matches the term of security.

- **Correlation between Two Securities:**

Correlation measures the association between the returns of two securities. Portfolio risk depends on this correlation.

Historical correlation is calculated as $\rho_{xy} = \frac{\sum(R_x - \bar{R})(R_y - \bar{R})}{\sqrt{\sigma_x \sigma_y}}$

Ex-ante correlation is calculated as ρ_{xy} = Covariance (x,y) ÷ $\sigma_x.\sigma_y$

$$= \sqrt{\sum P_i\left(R_{xi} - E(R_x)\right)\left(R_{yi} - E(R_y)\right)} \div \sigma_x .\sigma_y$$

Consider the following example.

Illustration 4

An investor is considering investing in two securities X and Y. The estimates are given below:

Scenarios	A	B	C	D
Return (X) (%)	-10	25	20	10
Return (Y) (%)	5	30	20	10

Probability	0.2	0.4	0.3	0.1

Calculate expected return and risk of each security and the ex-ante correlation between returns of the securities.

Solution:

Calculation of expected return

Scenario	R_{xi} (%)	R_{yi} (%)	P_i	$R_{xi} \times P_i$	$R_{yi} \times P_i$
A	-10	5	0.2	-2	1
B	25	30	0.4	10	12
C	20	20	0.3	6	6
D	10	10	0.1	1	1
			1.0	15	20

So, $E(R_x) = 15\%$ and $E(R_y) = 20\%$.

Calculation of risk

Scenario	$[R_{xi} - E(R_x)]^2$	$P_i\ [R_{xi} - E(R_x)]^2$	$[R_{yi} - E(R_y)]^2$	$P_i\ [R_{yi} - E(R_y)]^2$
A	625	125	225	45
B	100	40	100	40
C	25	7.5	0	0
D	25	2.5	100	10
		175		95

$\sigma_x = \sqrt{175} = 13.2287\%$ and $\sigma_y = \sqrt{95} = 9.7468\%$.

Calculation for correlation

Scenario	$[R_{xi} - E(R_x)]$	$[R_{yi} - E(R_y)]$	$[R_{xi} - E(R_x)] \times [R_{yi} - E(R_y)]$	$P_i[R_{xi} - E(R_x)] \times [R_{yi} - E(R_y)]$
A	-25	-15	375	75
B	10	10	100	40
C	5	0	0	0
D	-5	-10	50	5
				120

Correlation $= \rho_{xy} = \sqrt{\sum P_i\left(R_{xi} - E(R_x)\right)\left(R_{yi} - E(R_y)\right)} \div \sigma_x . \sigma_y$

$$= \frac{120}{13.2287 \times 9.7468} = 0.9307$$

- **Possible Values of Correlation and Their Interpretation**

The pairwise correlation values can range between -1 and +1. The meaning of various values of correlation are shown in the following table.

Value of correlation (ρ_{xy})	Interpretation
ρ_{xy} = -1	It is called perfectly negative correlation.

$\rho_{xy} = +1$	It is called perfectly positive correlation
$\rho_{xy} = 0$	There is no correlation.

While negative correlation indicates an inverse relationship between the returns of the two securities (i.e., if return of X increases, return of Y will decrease and vice-versa), positive correlation indicates unidirectional change i.e., increase in X is followed by increase in Y and decrease in X is followed by decrease in Y.

It may be noted that zero correlation does not mean that the returns are independent. It only means that there exists no linear association between the returns of the two securities. Non-linear association cannot be denied here.

In order to interpret the correlation, we need to calculate the square of correlation coefficient. The value thus arrived is called coefficient of determination (ρ_{xy}^2). This indicates the percentage of variation in one variable explained by the variation in the other variable.

For example, if ρ_{xy} = 0.75, then ρ_{xy}^2 = 0.5625 or 56.25%.

This means, 56.25% of the variation in X (or Y) can be explained by variation in Y (or X).

- **Expected Return and Risk of a Portfolio:**

For two securities, portfolio return is calculated as follows:

$E(R_P) = W_x \times E(R_x) + W_y \times E(R_y)$ where 'w' refers to the weight i.e., proportional investment and $E(R_x)$ and $E(R_y)$ are the expected return from security X and Y respectively.

On the other hand, portfolio risk is calculated as follows:

$$\sigma_P = \sqrt{w_x^2\sigma_x^2 + w_y^2\sigma_y^2 + 2w_x w_y \sigma_x \sigma_y \rho_{xy}}$$

where, σ_x^2 and σ_y^2 are variance of return of security X and Y respectively and ρ_{xy} is the correlation coefficient between returns of security X and Y.

For three securities, the formula will be as follows:

$E(R_P) = W_x \times E(R_x) + W_y \times E(R_y) + W_z \times E(R_z)$

$$\sigma_P = \sqrt{w_x^2\sigma_x^2 + w_y^2\sigma_y^2 + w_z^2\sigma_z^2 + 2w_x w_y \sigma_x \sigma_y \rho_{xy} + 2w_y w_z \sigma_y \sigma_z \rho_{yz} + 2w_z w_x \sigma_z \sigma_x \rho_{zx}}$$

In general, portfolio return and risk are calculated by the formula –

$E(R_P) = \sum_{i=1}^{n} W_i E(R_i)$

$\sigma_P^2 = \sum_{i=1}^{n} \sum_{j=1}^{n} W_i\, W_j Cov[E(R_i)E(R_j)]$

Consider the following examples.

Illustration 5

There are two securities with the following risk and return characteristics.

$E(R_x)$ = 20% $E(R_y)$ = 15% and σ_x = 12% and σ_y = 10% and ρ_{xy} = -0.6

50% of the fund is invested in X and remaining 50% is invested in Y.

Calculate portfolio return and risk.

Solution:

Given, $W_x = 0.5$ and $W_y = 0.5$,

$E(R_P) = W_x \times E(R_x) + W_y \times E(R_y) = 0.5 \times 20 + 0.5 \times 15 = 17.5\%$

$$\sigma_P = \sqrt{w_x^2\sigma_x^2 + w_y^2\sigma_y^2 + 2w_xw_y\sigma_x\sigma_y\rho_{xy}}$$

$$= \sqrt{0.25 * 144 + 0.25 * 100 + 2 * 0.5 * 0.5 * 12 * 10 * (-0.6)}$$

= 5%

Illustration 6

There are three securities with the following risk and return characteristics.

$E(R_x)$ = 20% $E(R_y)$ = 15% and $E(R_z)$ = 12% σ_x = 12%, σ_y = 10% σ_z = 8%

and ρ_{xy} = -0.6 ρ_{xy} = -0.4 and ρ_{xy} = -0.2

Consider 50% investment in X, 30% in Y and 205 in Z.

Calculate portfolio return and risk.

Solution:

Given, $W_x = 0.5$ and $W_y = 0.3$ $W_z = 0.2$,

$E(R_P) = W_x \times E(R_x) + W_y \times E(R_y) = 0.5 \times 20 + 0.3 \times 15 + 0.2 \times 12 = 16.9\%$

$$\sigma_P = \sqrt{w_x^2\sigma_x^2 + w_y^2\sigma_y^2 + w_z^2\sigma_z^2 + 2w_xw_y\sigma_x\sigma_y\rho_{xy} + 2w_yw_z\sigma_y\sigma_z\rho_{yz} + 2w_zw_x\sigma_z\sigma_x\rho_{zx}}$$

$$= \sqrt{\begin{matrix} 0.25 * 144 + 0.09 * 100 + 0.04 * 64 + 2 * 0.5 * 0.3 * 12 * 10 * (-0.6) + \\ 2 * 0.3 * 0.2 * 10 * 8 * (-0.4) + 2 * 0.5 * 0.2 * 12 * 8 * (-0.2) \end{matrix}}$$

$$= \sqrt{47.56 - 21.6 - 3.84 - 3.84}$$

= 4.27%

GROUP: 3, PART: 15

STRATEGIC

COST MANAGEMENT DECISION MAKING - (SCMD)

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Your Preparation Quick

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

Learning Objectives:

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

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

Whither Apple!

01.00: Apple Inc.

Apple Inc. (popularly referred to as Apple) is a prominent hardware and software company best known for its series of smartphones and personal computers. Apple designs, manufactures and markets smartphones, personal computers, tablets, wearables and accessories. In addition, it also sells a variety of related services. The registered office of Apple Inc. is located at One Apple Park Way, Cupertino, California, USA.

The geographical reporting segments are divided into America, Europe, Greater China, Japan and Rest of Asia Pacific. As of September 2022, the Company had approximately 164,000 full-time equivalent employees on its rolls. The entity has reported net sales of US$ 394.33 billion for the fiscal year ended on 24.09.2022. The market capitalisation of the company is estimated to be US$ 2167 billion as of 5th January 2023.

Apple Inc. at a Glance

Business	*Manufacturing and selling of Smart Phones, Personal Computers, etc.*
Head Quarters	*Cupertino, California*
Reporting Segments	*America, Europe, Greater China, Japan and Rest of Asia Pacific*
Employees	*164,000*
Net Sales (Fiscal Year 2021-22)	*US$ 394.33 Billion*
Market Capitalisation	*US$ 2167 Billion*

02.00: Product Mix

'Product Differentiation through Intrinsic Delivery of Esteem value' is perceived to be the long term strategic posture of Apple. One of the popular quotes attributed to Steve Jobs, the co-conceiver of Apple in 1977 reads, "Innovation distinguishes between a leader and a follower" – an inspiring one indeed. No wonder that over the last forty five years, Apple has been toeing the strategy of distinguishing itself by leveraging its unique capabilities relating to 'designing and developing its own operating systems, hardware, application software, and services' for providing its customers 'products and solutions that offer innovative design, superior ease of use, and seamless integration'.

Apple Inc.'s annual reports classify its products under the following categories:

(i) iPhone which is the company's line of smartphones based on its iOS operating system. Presently, the iPhone line includes iPhone 14 Pro, iPhone 14, iPhone 13, iPhone SE®, iPhone 12 and iPhone 11.

(ii) Mac which is the company's line of personal computers based on its macOS® operating system. The Mac line includes laptops MacBook Air® and MacBook Pro®, as well as desktops iMac®, Mac mini®, Mac StudioTM and Mac Pro®.

(iii) iPad which is the Company's line of multipurpose tablets based on its iPadOS® operating system. The iPad line includes iPad Pro®, iPad Air®, iPad and iPad mini®.

(iv) Wearables, Home and Accessories which includes:

- AirPods®, the Company's wireless headphones, including AirPods, AirPods Pro® and AirPods MaxTM;
- Apple TV®, the Company's media streaming and gaming device based on its tvOS® operating system, including Apple TV 4K and Apple TV HD;
- Apple Watch®, the Company's line of smartwatches based on its watchOS® operating system, including Apple Watch UltraTM, Apple Watch Series 8 and Apple Watch SE®; and
- Beats® products, HomePod mini® and accessories.

(v) Services which include Advertising, AppleCare, Cloud Services, Digital Content and Payment Services.

Noteworthy is the fact that the products and services offered by Apple are inter-connected with each other and can easily be integrated by the customers. For example, iPhone, Mac, iPad, Air pods, Apple Watch, etc. can be conveniently synchronised with each other through one exclusive Apple id and used for multiple purposes with ease and comfort.

03.00: Sales

The Company's fiscal year is the 52- or 53-week period that ends on the last Saturday of September.

As to the distribution channels, the annual reports state that the company sells its products and resells third-party products in most of its major markets directly to consumers, small and mid-sized businesses, and education, enterprise and government customers through its retail and online stores and its direct sales force.

The Company also employs a variety of indirect distribution channels, such as third-party cellular network carriers, wholesalers, retailers and resellers. During 2022, the Company's net sales through its direct and indirect distribution channels accounted for 38% and 62%, respectively, of total net sales.

For the purpose of analysing the trend, product-wise net-sales of Apple Inc. over the last six fiscal years, spanning from 2016-17 to 2021-22, are furnished at table 1 that follows.

Table 1: Apple Inc. – Product-wise Net Sales (US$ Million)

Serial	Product	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
1	iPhone	139337	164888	142381	137781	191973	205489
2	Mac	25569	25198	25740	28622	35190	40177
3	iPad	18802	18380	21280	23724	31862	29292
4	Wearables, Home & Accessories	12826	17381	24482	30620	38367	41241
5	Sub Total (1..4)	196534	225847	213883	220747	297392	316199
6	Services	32700	39748	46291	53768	68425	78129
7	Total	229234	265595	260174	274515	365817	394328

It can be observed from the table that:

a. The sales has gone up from US$ 229.234 billion in 2016-17 to US$ 394.328 billion by 2021-22, i.e. an increase of 72% in five years. The clear inference is that the demand for the Apple Basket has been increasing continuously.

b. iPhone is the lead product and accounts for the maximum quantum of the sales.

c. Going by the figures for 2016-17 iPhone accounts for 60.79%; Mac 11.15%; iPad 8.20%; wearables, Home & Accessories 5.60%; and services 14.26% of the total sales.

d. Considering the figures for 2021-22 iPhone accounts for 52..11%; Mac 10.19%; iPad 7.43%; wearables, Home & Accessories 10.46%; and services 19.81% of the total sales.

e. Within the sales mix when computed as a percentage of the total mix, iPhone shows a decreasing trend; Mac & iPad a near-stable trend; and Wearables, Home & Accessories and Services an increasing trend. The sales mix is, obviously, tilting towards more and more Wearables, Home & Accessories and Services. Impliedly, Apple is able to garner more and more customers through its line-up of Wearables, Home & Accessories and Services

The annual reports of Apple Inc. highlight that the markets for Apple's products and services are highly competitive, and are characterized by aggressive price competition and resulting downward pressure on gross margins, frequent introduction of new products and services, short product life cycles, evolving industry standards, continual improvement in product price and performance characteristics, rapid adoption of technological advancements by competitors, and price sensitivity on the part of consumers and businesses. They further state that many of the company's competitors seek to compete primarily through aggressive pricing and very low cost structures, and by imitating the company's products and infringing on its intellectual property.

The data in table 1 attest the observation that Apple attempts to increase market demand for its products through differentiation, which entails making its products as unique and attractive to consumers. By targeting the customers who are willing to pay more and maintaining a premium price, Apple also sets up an artificial entry barrier to its competitors. As a result, Apple's high level of brand loyalty is considered unusual for any product.

04.00: Margin

The renowned Steve Jobs is stated to have built the strategy for Apple on four pillars, viz.

1. Offer a small number of products
2. Focus on the high end
3. Give priority to profits over market share
4. Create a halo effect that makes people starve for new Apple products

As such, Jobs' vision for Apple was always to create a premier product and charge a premium price.

The company adopts the practice of computing gross margin by deducting cost of sales from net sales. Similarly, it derives operating income by deducting operating expenses from gross margin. Table 2 provides the percentage of gross margin to sales separately for products and services and the overall. The table also provides Percentage of Operating Income to Net Sales.

The formulae adopted for the purpose are:

Gross Margin % of Products	**=**	**(Gross Margin of Products ÷ Net Sales of Products) × 100**
Gross Margin % of Services	=	(Gross Margin of Services ÷ Net Sales of Services) × 100
Gross Margin % (Overall)	=	(Total Gross Margin ÷ Total Net Sales) × 100
Percentage of Operating Income to Net Sales	=	(Operating Income ÷ Net Sales) × 100

Table 2: Apple Inc. – Analysis of Margin

Fiscal Year	Percentage of Gross Margin to Net Sales			% of Operating Income to Net Sales
	Products	Services	Overall	
2016-17	35.72	55.61	38.47	26.76
2017-18	34.40	60.77	38.34	26.69
2018-19	33.21	63.74	37.82	24.57
2019-20	31.47	66.02	38.23	24.15
2020-21	35.35	69.73	41.78	29.78
2021-22	36.26	71.75	43.31	30.29

The table reveals that:

a. The gross margin for the products remains in the range of 31.47% (2019-20) to 36.26% (2021-22). The margin is assumably higher than the industry norms.

b. The gross margin for services has shot up from 55.61% in 2016-17 to 71.75% for 2021-22. The margin is very high by all means.

c. The overall gross margin appears to be stable between 37.82% (2018-19) and 43.31% (2021-22).

d. The minimum level of operating income of 24.15% was posted for 2019-20, the maximum level being 30.29% for 2021-22. The quantum and trend of operating income is much higher than the peers.

One of the supply chain strategies that Apple adopts relate to procuring certain components from single or limited sources. Reportedly, Apple uses some custom components that are not commonly used by its competitors, and new products introduced by the Company often utilize custom components available from only one source. Substantially all of the Apple's hardware products are manufactured by outsourcing partners that are located primarily in Asia (cheap manufacturing hubs), with some Mac computers manufactured in the U.S. and Ireland. The entire approach focusses on exclusivity as also cost containment.

At the same time, Apple continues to develop new technologies to enhance existing products and services, and to expand the range of its offerings through research and development ("R&D"), licensing of intellectual property and acquisition of third-party businesses and technology. In the process, Apple's products have always been designed to be ahead of the curve compared to its peers

Finally, the end reality revibrates to the astounding fact that despite a cut-throat competition, Apple has been able to sell its products at a premium and has been able to post an enviable operating income in the range of thirty percent, thus establishing the impact of halo-effect.

05.00: Value Propositions

The value propositions attributable to Apple may be inferred as:

a. Product Differentiation by means of offering Premium High-end Products that are carefully crafted with specific focus on Performance and Privacy
b. Delivering Intrinsic Esteem Value by facilitating an interconnected line-up of products and services that are well synchronised with each other for hassle-free multi-usage.

06.00: Quick Take

Product Differentiation holds the key for Premium Pricing!

GROUP: 3, PART: 16

CA Vikash Mundra
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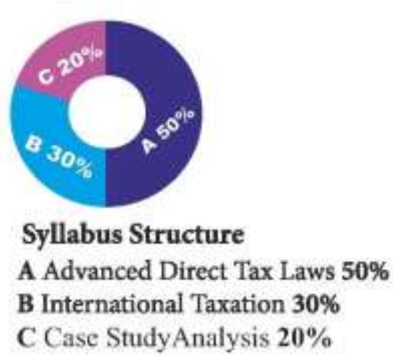
DIRECT TAX

LAWS AND INTERNATIONAL TAXATION - (DTI)

Your Preparation Quick



Learning Objectives:

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

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

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.

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%.

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 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.

Scheme of Alternate Minimum Tax (AMT)

Step 1	Compute regular income tax liability (before surcharge and 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: Surcharge, if applicable			**
	Tax and surcharge payable			****
	Add: Cess			**
	Tax liability after Cess			****

Impact where AMT is applicable i.e., case where value of Step 3 is higher than 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% (+ surcharge + cess) of adjusted total income of the assessee. However, in case of a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange, AMT shall be computed considering 9% (instead of 18.5%) of adjusted total income.

c. A report in Form 29C from a chartered accountant is required to be obtained on or before 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. is applicable to such assessee.

Provision Illustrated

Compute tax of the following assessee:

Particulars	Mr. W	Mr. X	Mr. Y	A LLP	B LLP
Gross Total Income being Business Income	15,00,000	25,00,000	27,00,000	32,00,000	8,00,000
Deduction u/s 80C	1,00,000	1,00,000	1,00,000	Nil	Nil
Deduction u/s G	25,000	1,00,000	Nil	1,00,000	1,00,000
Deduction u/s 80IE	7,75,000	Nil	8,00,000	Nil	2,00,000
Total Income	**6,00,000**	**23,00,000**	**18,00,000**	**31,00,000**	**5,00,000**
Regular Tax	32,500	5,02,500	3,52,500	9,30,000	1,50,000
Adjusted Total Income	13,75,000	23,00,000	26,00,000	31,00,000	7,00,000
Whether sec. 115JC is applicable or not 1. As adjusted total income does not exceed Rs.20 lakh 2. As no deduction is claimed u/s 80H to 80RRB (other than sec. 80P) or u/s 10AA	No[1]	No[2]	Yes	No[2]	Yes
Alternate Minimum Tax (AMT) u/s 115JC [18.5% of adjusted total income]	NA	NA	4,81,000	NA	1,29,500
Tax (Higher of Regular Tax and AMT)	**32,500**	**5,02,500**	**4,81,000**	**9,30,000**	**1,50,000**
Add: Health & Education Cess	1,300	20,100	19,240	37,200	6,000
Tax and Cess Liability (Rounded off)	**33,800**	**5,22,600**	**5,00,240**	**9,67,200**	**1,56,000**

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

- 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.

Examples

(a)	Tax liability u/s 115JC (AMT)	500	
	Regular Tax liability	1,000	
	Difference	500	
	₹ 500 cannot be treated as credit because liability u/s 115JC (AMT) is not greater than regular tax liability.		
(b)	Year 1		
	Liability u/s 115JC (AMT)	2,000	
	Regular Tax Liability	1,000	
		1,000	It can be carried forward
	Year 2		
	Liability u/s 115JC (AMT)	2,500	
	Regular Tax Liability	5,000	
	Difference	2,500	
	Now regular liability is more than liability u/s 115JC (AMT), the credit carried forward can be set off to the extent of the difference *i.e.,* ₹ 2,500		
	In year 2, tax payable shall be as under:		

	Regular Tax Liability		5,000
	Less : Set off of AMT credit		1,000
	Tax payable (before surcharge and cess)		4,000
In the above example, if the credit carried forward was ₹ 3,500, then tax payable in year 2 would be calculated as under:			
	Regular Tax Liability		5,000
	Less : Set off of AMT credit		2,500
	Tax payable (Credit available ₹ 3,500 but restricted to ₹ 2,500)		2,500

Here ₹ 1,000 (being balance credit left i.e., ₹ 3,500 – ₹ 2,500) is carried forward to the next year.

In other words, the excess of regular tax over AMT u/s 115JC is the amount of maximum set off permissible.

GROUP: 4, PART: 17

CORPORATE

FINANCIAL REPORTING - (CFR)

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Your Preparation Quick

Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business Comminations & Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **25%**
E Government Accounting in India **15%**

Learning Objectives:

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

- Learn how to highlight the achievements of a company to its investors, creditors, bankers, public, employees, regulatory bodies and Government on a periodic basis
- To convey future based strategic roadmap for the company.

Ind AS 12 Income Taxes

The major three approaches to valuation of shares are:

A. Income Approach

B. Net Assets Approach

C. Market Approach

In this issue I would discuss about Market Approach.

Under market approach, market value of other companies in peer group is related to the base which can be any of their accounting measures (like Profits, Cash Flows, Sales or Net Asset Value) and a relative or multiple is computed for each of the companies in peer group. Thus, relative or multiple is the ratio of market price of equity to some accounting variable of the company taken as the base value. Most common multiples are price-earnings (P/E) ratio, price-sales (P/S) ratio, price-cash flow from operations (P/CFO) ratio etc. Important point is the relatives have to be computed for the peer group of companies to find the average relationship between the base value and market price. After obtaining the average relationship through relative or multiple, the company finds its calculated market value of equity by applying the average relative to the base accounting value (for instance, Profits, Cash Flows, Sales or Net Asset Value) of the company in question.

Thus, the steps involved to find value per share based on market approach:

1. Market capitalisation of each of the peer group of companies is related to any fundamental element of that company (called base value such as Profits, Cash Flows, Net assets, Sales). The ratio obtained is called relative or multiple.
2. For each of the companies in peer group there may be different values of relative or multiple based on different fundamental accounting variables. More than one multiple is usually considered in practice.
3. To compute the average of the multiples of the peer group of companies (we call it as Comparator) separately for each base value.
4. To apply the average multiple (Comparator) based on a particular base value to the same base value of the required company for valuation of its equity for that base. Then to find average of the different equity values based on different base values.
5. To divide average value of equity by the no. of shares in order to find value per share.

Market capitalisation (MC) is the product of market price of shares and the number of shares outstanding. Thus, it represents market value of equity. In computation of relative we may find some popular ratios also such as Price Earnings ratio where base value is Earnings and Market to Book Value ratio where base value is Net Assets. But in all circumstances, the different base values are related to market value of equity only. Relatives or multiples are the ratios where market capitalisation is the numerator and any of the alternative fundamental accounting variables is the denominator.

Relative or multiple = Market Capitalisation/Base value. [where, alternative base values are EAT, EBIT, NOPAT, CF, FCFF, FCFE, Net Assets, Enterprise Value, Sales, or any other fundamental variable]

Illustration 1

X Ltd. has EPS Rs. 15 and no. of shares 2000. Its Cash Flow Rs. 15000 and Sales Rs. 80000. Find value per share of X Ltd. under Market approach based on the data of similar other companies as provided below:

Companies	PAT Rs.	CF Rs.	Sales Rs.	MC Rs.
A Ltd.	30000	40000	120000	150000
B Ltd.	36000	49500	132000	198000
C Ltd.	40000	44000	146666	220000
D Ltd.	32000	45176	153600	192000

Solution:

For the 4 companies in the peer group Relatives (or Multiples) are computed as MC/ Base Value

For PAT as base value M1 is the multiple.

For CF as base value M2 is the multiple.

For Sales as base value M3 is the multiple.

Comparator is the average value of the multiples for the 4 companies.

Companies	PAT Rs.	CF Rs.	Sales Rs.	MC Rs.	M1=MC/PAT	M2=MC/CF	M3-MC/S
A	30000	40000	120000	150000	5	3.75	1.25
B	36000	49500	132000	198000	5.5	4	1.5
C	40000	44000	146666	220000	5.5	5	1.5
D	32000	45176	153600	192000	6	4.250044	1.25
				Comparator	5.5	4.250011	1.375002

Value of equity share of X Ltd. for each base = Base Value of X*Comparator

X Ltd.	M1=MC/PAT	M2=MC/CF	M3-MC/S
Base Value of X Ltd. Rs.	EPS = 15	CF = 38000	Sales = 124000
Value of equity share for each Base Rs.	EPS*Comparator = 15*5.5 = 82.5	CF*Comparator/2000 = 81	Sales*Comparator/2000 = 85.3
Average value of equity shares of X Ltd. Rs.	(82.5 +81 + 85.3)/3 = 82.83		

GROUP: 4, PART: 18

INDIRECT TAX

LAWS & PRACTICE - (ITP)

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Your Preparation Quick

Syllabus Structure
A Advanced Indirect Tax and Practice **80%**
B Tax Practice and Procedures **20%**

Learning Objectives:

Through the following MCQ, students can refresh themselves about

- Import duties on project import
- Value of export
- Import general manifest
- Departure permission
- High seas sales transaction
- Rate of exchange for warehoused goods
- Improper removal of goods
- Duty drawback

Indirect Tax

Choose the correct option from the followings –

1. Which of the Bill of Entry copy to be presented to bank

(a) Original

(b) Duplicate

(c) Triplicate

(d) Quadruplicate

2. What is the rate of Basic Import Duties on Project Imports

(a) 5%

(b) 10%

(c) 12%

(d) 15%

3. In determining the value of export goods under sub-rule (1), the proper officer shall make such adjustments as appear to him reasonable – in this regard which of the following will not be considered as relevant.

(a) difference in the dates of exportation

(b) difference in export levels and the exporting countries status

(c) difference in composition, quality and design between the goods to be assessed and the goods with which they are being compared

(d) difference in domestic freight and insurance charges depending on the place of exportation

4. "Price is the sole consideration for sale" is applicable for what type of Export Value –

(a) Computed Value

(b) Residual Method

(c) Transaction Value

(d) Comparison Method

5. Transaction Value of import goods under section 14(1) of the Customs Act and Rule 3(1) of the Imported Goods Rules, which of the below mentioned condition is not applicable for Importer

(a) There are no restrictions as to the disposition or use of the goods by the buyer

(b) The sale or price is subject to some conditions or considerations for which a value be determined in respect of the goods being valued

(c) No part of the proceeds of any subsequent resale, disposal or use of the goods by the buyer will accrue directly or indirectly to the seller, unless an appropriate adjustment can be made in accordance with the provisions of rule 10 of these rules

(d) The buyer and seller are not related, or where the buyer and seller are related, that transaction value is acceptable for customs purposes under the provisions of rule 3(3

6. In which of the following case Transaction value of Identical Goods will not be applicable

(a) Identical goods can be compared with the other goods of the same country from which import takes place.

(b) These goods must be valued at a price which is produced by the same manufacturer.

(c) If price is not available, then the price of other manufacturers of the same country is to be taken into account.

(d) If more than one value of identical goods is available, average of such value should be taken.

7. In the case of goods imported by air, where the cost of freight is ascertainable, such cost shall not exceed

(a) 5% of free on board value of the goods

(b) 10% of free on board value of the goods

(c) 15% of free on board value of the goods

(d) 20% of free on board value of the goods

8. Time Limit for submission of Import General Manifest or Import Report for Vehicle (Land Customs Station)

(a) Before arrival of the vehicle

(b) Immediately after the arrival of the vehicle

(c) Within 12 hours of arrival

(d) Within 24 hours of arrival

9. Which is one of the feature of Inland Container Station (ICD)

(a) It is a place where containers are aggregated for onwards movement to or from the ports.

(b) It is a place where containers are stuffed, unstuffed and aggregation/ segregation of cargo takes place.

(c) No site restriction applies.

(d) It is treated as an extension of a port/ICD/air-cargo complex.

10. Which of the following condition is not relevant for getting departure permission by master of vessel.

(a) the master of the vessel has to physically present before the Custom Authority.

(b) all charges and penalties due in respect of that vessel has been paid

(c) no penalty is leviable on master of the vessel under section 116 (i.e. if the goods on a vessel are not landed or short landed, penalty is leviable which is not more than twice the export duty leviable had they been exported).

(d) the provisions of this Chapter and any rules and regulations relating to coastal goods and vessels carrying coastal goods have been complied with.

11. Which of the following will not be considered as Benefits of High Sea Sale Transaction

(a) Goods are available at short time to final buyers

(b) Also instead of buying entire shipment small quantities also can be bought for final buyers

(c) First buyer can buy large quantity of goods at cheap / reasonable price and sale at best price to final buyers.

(d) Loading of pricing for Customs assessment.

12. What will be the relevant date for rate of exchange when goods are warehoused under bond.

(a) As on the date of submission of sub-bill of entry

(b) At the time of submission of 'into bond' bill of entry

(c) The rate of duty prevails on the date on which the goods should have been removed is to be considered

(d) When goods are removed for home consumption

13. Interest @15% p.a. is to be paid on the value of total duty payable If the importer after warehousing the goods does not clear from the date of deposit of the goods

(a) within 30 days
(b) within 60 days
(c) within 90 days
(d) within 120 days

14. Under Section 45(3) of the Customs Acts which of the following will be considered as

(a) Sending a copy of the same to the customs authorities
(b) Keep proper record of goods received from the carriers
(c) Removal of goods from the customs area with specific permission of the Customs Authorities
(d) If any imported goods are pilfered after unloading in any customs area, while in the custody of the custodian

15. In which of the following case, we can say the goods were not improperly removed as per section 72 of the Customs Act, 1962

(a) Warehoused goods taken out of a warehouse for removal to another warehouse.
(b) Warehoused goods have not been removed from a warehouse at the expiry of the period during which such goods are permitted
(c) Warehoused goods taken as samples without payment of duty but not returned
(d) Warehoused goods for which a bond has been executed and have not been cleared goods for home consumption or export.

16. If the imported goods like animals, perishable goods, hazardous goods is relinquished by the importer they can be sold

(a) Within one days
(b) Within three days
(c) Within five days
(d) any time with the permission of proper officer

17. As per Rule 7 of Drawback Rules the special brand rate of duty drawback can be applied based on the satisfaction of following conditions. In this regard which of the below mentioned statement is incorrect.

(a) Exporter has to apply for fixation of special brand rate within 30 days from the date of export.
(b) All industry rates do not cover 50% of the duties paid by the exporter.
(c) Rate of Duty Drawback should not be less than 1% of Free on Board.
(d) Exported goods value is more than the value of imported goods.

18. The duty drawback are allowable on motor cars imported for personal use after payment of duty and subsequently re- Exported after normal usage of

(a) One years
(b) Two years
(c) Three years
(d) Four years

19. As per the Rule 8A of Customs, Central Excise Duties and Service Tax Drawback Rules, 1995 the drawback amount or rate determined under rule 3(i.e. the all industry rate) shall not exceed

(a) 1/2th of the market price of export product
(b) 1/3rd of the market price of export product
(c) 2/3rd of the market price of export product
(d) 1/4thd of the market price of export product

20. Which of the following document will not be considered for claiming of drawback on goods other than by post

(a) copy of export contract or letter of credit, as the case may be
(b) copy of ARE-1, wherever applicable
(c) import certificate, wherever necessary
(d) copy of communication regarding rate of drawback where the drawback claim is for a rate determined by the Principal Commissioner of Customs or Commissioner of Customs, as the case may be, under rule 6 or rule 7 of these rules.

ANSWERS

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

GROUP: 4, PART: 19,

COST & MANAGEMENT AUDIT – (CMAD)

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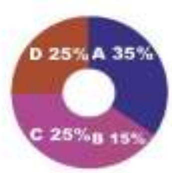
Your Preparation Quick



Syllabus Structure

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

Learning Objectives:

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

Cost & Management Audit

Q. The Audited accounts of M/s ABC Steels Ltd. shows a Profit of Rs. 42,14,100.00 for the financial year ended 31.03.2022. On review of Profit & Loss account, the following issues were observed: -

1	**Cost of materials includes :-**	**Amount in Rs.**
i.	Demurrage charge on Raw materials	12,300
ii.	Cost of Material includes prior period bill payment	37,800
iii.	Raw Material imported from USA valued in Financial Account (F A) as on date of payment.	
	Values as on the date of payment-	2,15,000
	Values as on the date of transaction-	2,40,000
	Values as on the date of order of material-	2,50,500
2	**Other income in F A includes:-**	
i.	Profit on Sale of Fixed Assets	1,05,000
ii.	Bad debt recovered	45,850
3	**Salary & Wages in F A includes :-**	
i.	Overtime premium	4,25,000
ii.	Arrear salary relating to 2020-21	85,760
iii.	Salary paid to contractual employee	78,900
4	Rebate allowed to customers on last year sales	1,28,550
5	Donation Paid	75,000
6	Insurance Claim for natural disaster	1,08,700
7	Profit from Retail trading activity	80,430
8	**Employee Cost in F A includes :-**	

i.	Free housing and free conveyance	1,45,650
ii.	Recruitment cost & training cost	80,500
iii.	Penalty due to noncompliance to Labour act	65,600
9	Interest Income from Inter-Corporate Deposits	1,61,500
10	Decrease in value of Closing WIP and Finished goods inventory :-	
	as per Financial Accounts	22,12,430
	as per Cost Accounts	30,02,500

Other Information.

1. Appreciation in value of Investments (No entry in books) Rs. 65,000.00
2. Annual Maintenance Repairing cost. Rs. 1,25 000.00
3. Repairing cost incurred due to damage of Fire Rs. 1,10,000.00
   (Company did not have fire Insurance)
4. During the year company has incurred Rs. 2,00,000.00 for mass vaccination drive for Covid-19 out of which 30% expenses incurred for vaccinating its own employees and their families.

You are requested to arrive at the profit / Loss as per Cost Accounts in terms of CRA-1 of Companies (Cost Records and Audit) Rules, 2014. You are further advised to prepare detailed Reconciliation Statement duly supported with notes wherever required.

Answer.

	Particulars	Notes	Amt. in Rs.	Amt. in Rs.
	Profit as per F/A			**42,14,100**
Add:				
i	Demurrage charge on Raw material	1	12,300	
ii	Cost of Material includes prior period payment	2	37,800	
iii	Arrear salary relating to 2016-17	2	85,760	
iv	Penalty due to noncompliance to Labour act	3	65,600	
v	Rebate allowed to customers on last year sales	2	1,28,550	
vi	Donation Paid		75,000	
vii	Repairing cost incurred due to damage of Fire	4	1,10,000	

viii	Expenses incurred for Vaccination other than Employees and their families (70% of Rs. 2,00,000.00)	5	1,40,000	
	Sub-total			**6,55,010**
				48,69,110
Less:				
i	Differential Values (Value on the date of transaction- Value on the date of payment) (2,40,000-2,15,000)	6	25,000	
ii	Profit on Sale of Fixed Assets	7	1,05,000	
iii	Bad debt recovered		45,850	
iv	Interest Income from Inter-Corporate Deposits	7	1,61,500	
v	Insurance Claim for natural disaster	7	1,08,700	
vi	Profit from Retail trading activity	7	80,430	
vii	Decrease in value of Closing WIP and Finished goods inventory :-		7,90,070	
	Sub-total			**13,16,550**
	Profit as per Cost Accounts			**35,52,560**

Notes:

1. As per CRA-1 (Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014), any demurrage or detention charges shall not form part of the cost of materials.
2. Expenses relating to prior period is a non-cost item, which is not part of the cost.
3. Penalties, damages paid to statutory authorities shall not form part of the Employee cost.
4. Any repairs and maintenance cost resulting from some abnormal circumstances, e.g., major fire, flood and similar events shall not form part of the repairs and maintenance cost and treated as non-cost item.
5. Expenses incurred for mass vaccination drive for Covid-19 is recognised CSR activity and Non-cost expense. However expenses specifically incurred for vaccinating its own employees and their families will not be considered CSR activity under amended CSR Rule, 2014 notification dated 24.08.2020. Therefore such expenses will be considered as cost item under employee cost.
6. As per CRA-1 (Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014), the forex component of imported material cost shall be converted at the rate on the date of the transaction.

Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.

7. Any Revenue / Expenses incurred for non-operational activity is not part of the cost.
8. Appreciation in value of Investments as the same has not yet been recorded in financial accounts, so there is no such consequential effect.
9. Annual Maintenance Repairing cost is a regular operating expenses and the same has already been considered.

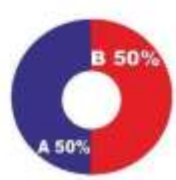
GROUP: 4, PART: 20,

STRATEGIC

PERFORMANCE MANAGEMENT AND BUSINESS VALUATION – (SPBV)

Dr. Ashish Kumar Sana
Professor,
Dept. of Commerce,
He can be reached at:
cu.ashis@gmail.com

Your Preparation Quick



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

Learning Objectives:

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

- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Total Quality Management (TQM)

TQM is an active approach encompassing a company-wide operating philosophy and system for continuous improvement of quality. It demands cooperation from everyone in the company, from the top management down to workers.

The principles of TQM are as follows:

(a) Customer Focus

(b) Managerial Leadership

(c) Belief in continuous improvement.

The emphasis of TQM is to design and build quality in the product, rather than allow defectives and then inspect and rectify them. The focus is on the causes rather than the symptoms of poor quality.

The three core concepts of TQM are -

(a) Quality Control (QC): It is concerned with the past and deals with data obtained from previous production, which allow action to be taken to stop the production of defective units.

(b) Quality Assurance (QA): It deals with the present and focuses to create and operate appropriate systems to prevent defects from occurring.

(c) Quality Management (QM): It concerned with the future and manages people in a process of continuous improvement to the products and services offered by the firm.

The various stages/steps to be taken in the implementation of TQM

Stage	Description
1	Identification of customers/customer groups.
2	Identification of customer expectations
3	Identification of customer decision-making requirements and product utilities
4	Identification of perceived problems in decision making process and product utilities
5	Comparison with other organizations and Benchmarking
6	Customer Feedback
7	Identification of improvement opportunities
8	Quality Improvement Process through - a) Determination of new strategies, b) Elimination of deficiencies,

Multiple Choice Questions (MCQ)

1. The Four R's of a Total Improvement was given----

(a) Deming
(b) Taguchi
(c) Jack L. Huffman
(d) Crosby

2. Which of these does NOT amount to a tangible gain of the quality circle?

(a) Better housekeeping
(b) Attitudinal changes
(c) Greater cost-effectiveness
(d) Increased profitability

3. Total Quality Management emphasises:

(a) The responsibility of the Quality Control staffs to identify and solve all quality-related problems.
(b) A system where strong managers are the only decision makers.
(c) A process where mostly statisticians get involved.
(d) A commitment to quality that goes beyond internal company issues to suppliers and customers.

4. Which of these is the odd one out according to the data inputs needed to prepare an FMEA?

(a) Reliability data
(b) Product & process specifications
(c) Quality engineer
(d) Customer priority data

5. A successful TQM program incorporates all of the following except:

(a) continuous improvement
(b) employment involvement
(c) benchmarking
(d) centralized decision-making authority

Answer Hints:

Question	1	2	3	4	5
Answer	c	b	d	c	d

Example 1

TQM Ltd. implemented a quality improvement programme and had the following results:

(₹ '000)

Particulars	2021	2022
Sales	6,000	6,000
Scrap	600	300
Rework	500	400
Production inspection	200	240
Product warranty	300	150
Quality training	75	150
Materials inspection	80	60

You are required to:

(a) Classify the quality costs as prevention, appraisal, internal failure and external failure and express each class as a percentage of sales.

(b) Compute the amount of increase in profits due to quality improvement.

Answer

(a) Classification of quality costs

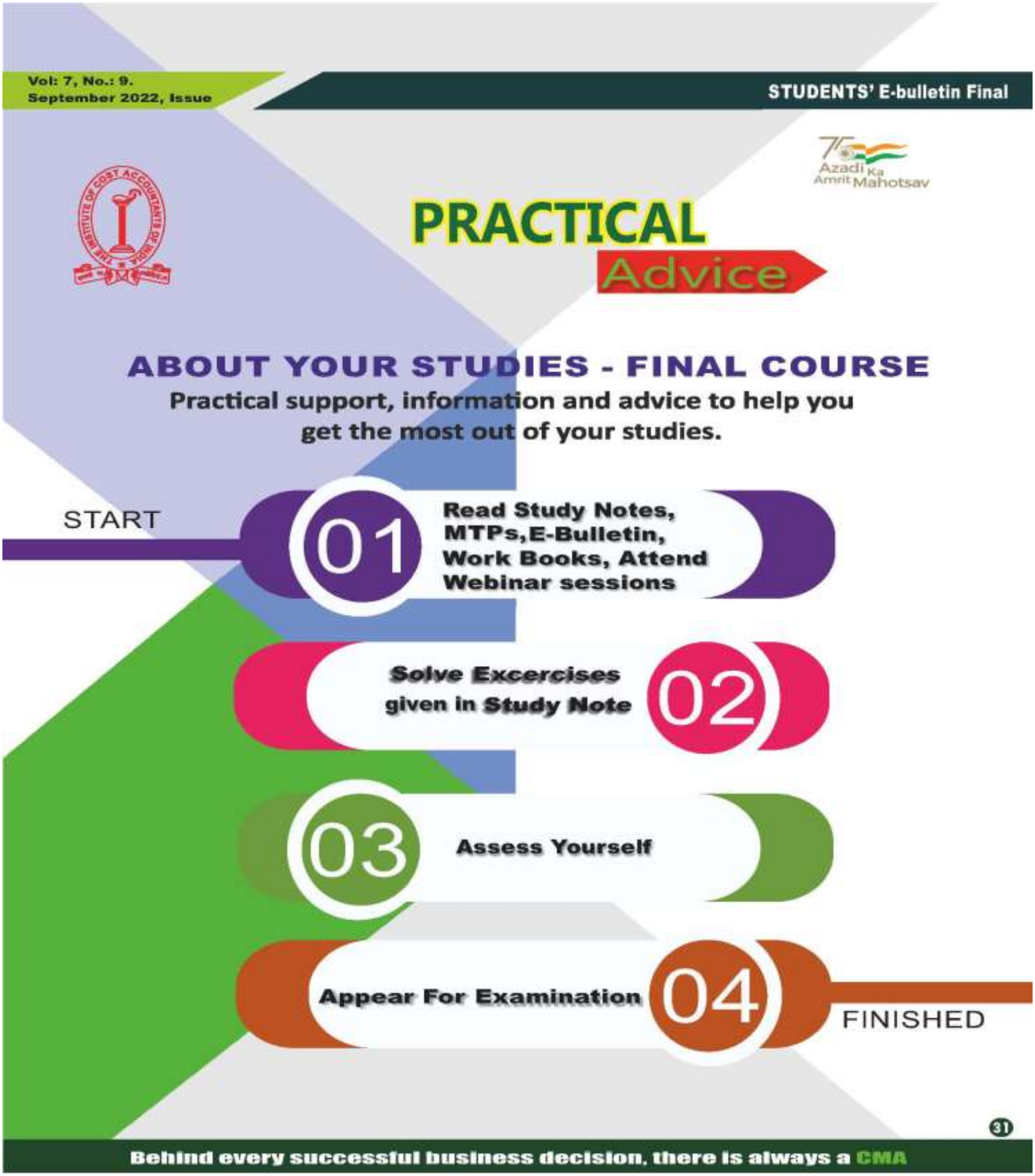
(₹ '000)

Particulars	2021	% of Sales	2022	% of Sales
Sales	6,000		6,000	
(a) Prevention Costs: Quality training	75	1.25	150	2.50
(b) Appraisal Costs:				
Product inspection	200		240	
Material inspection	80		60	
Total	280	4.67	300	5.00
(c) Internal failure costs:				
Scrap	600		300	
Rework	500		400	
Total	1100	18.33	700	11.67
(d) External failure Costs: Product warranty	300	5.00	150	2.50

Total quality costs (a+ b + c +d)	1,755	29.25	1,300	21.67

(b) Cost reduction was effected by 7.58% (i.e. 29.25% - 21.67%) of sales, which is an increase in profit by ₹4,55,000 (i.e. ₹17,55,000-₹13,00,000).

Practical Advice



Submissions

SUBMISSIONS

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Submissions

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Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!

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

Please put your opinions so that we can make your e-bulletin everything that you want it to be.

Send your Feedback to:
e-mail: studies.ebulletin@icmai.in
website: http://www.icmai.in

Message form Directorate of Studies

Dear Students,

We from the Directorate of Studies understand your expectations from us and accordingly we are trying to deliver some meaningful tips through various publications in soft versions like-E-bulletins, Mock Test Papers (MTPs), and we also have conducted Webinar Sessions for the benefit of the students. Supplementary and Amendments are also uploaded from time to time to keep the students updated about the recent changes made in the papers; wherever applicable.

You must be aware that India is celebrating Azadi Ka Amrit Mahotsav, which is an initiative of the Government of India to celebrate and commemorate 75 years of independence and the glorious history of its people, culture and achievements. Along with pan India, your Institute has also observed and took part in various meaningful activities throughout the year. We also expect that our students should also take part in the development of the nation and make the country proud.

"Freedom has only one motto, may our country be happy and prosperous" ....

let you all observe the message cited above.

- Certain general guidelines are listed below and which will help you in preparing for the examinations:
- Conceptual understanding and overall understanding of the subjects should be clear,
- Students are advised to go through the study material provided by the Institute meticulously,
- Students should know and learn the basic understandings of the subjects with focus on core concepts,
- Students are expected to give to the point answer which is a pre-requisite for any professional examination,
- To strengthen the answers, students are advised to answer precisely and in the structured manner,
- Proper time management is also important while answering.

Please refer the link mentioned below:
https://icmai.in/studentswebsite/index.php

GOOD LUCK
Be prepared and be successful

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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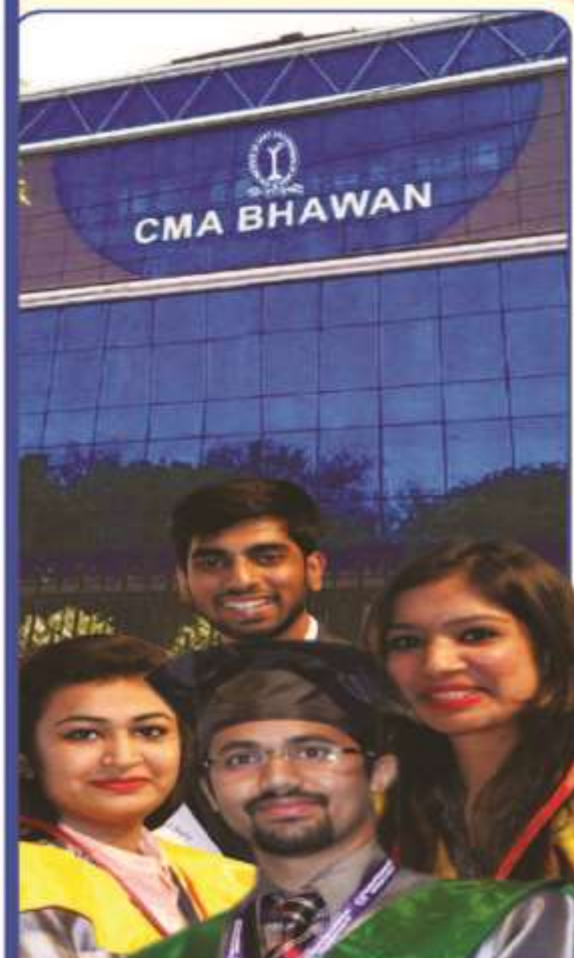

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Few Snapshots

CMA Vijender Sharma elected as President and CMA Rakesh Bhalla as Vice President of the Institute for the year 2022-23.

CMA Vijender Sharma elected as President and CMA Rakesh Bhalla as Vice President of the Institute for the year 2022-23.

CMA Vijender Sharma, President of the Institute along with CMA B.B. Goyal, Former Addl Chief Advisor (Cost), MoF, GoI extending greetings to Shri Gyanesh Kumar, IAS, Secretary to the Government of India, Ministry of Cooperation on 6th December, 2022.

CMA Vijender Sharma, President along with CMA Rakesh Bhalla, Vice President, CMA Biswarup Basu, Past President and CMA Kaushik Banerjee, Secretary of the Institute extending greetings to Shri Manoj Govil, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 29th November 2022.

CMA Vijender Sharma, President along with CMA Rakesh Bhalla, Vice President, CMA Biswarup Basu, Past President and CMA Kaushik Banerjee, Secretary of the Institute extending greetings to Shri Manoj Govil, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 29th November 2022.

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