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YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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150 YEARS OF CELEBRATING THE MAHATMA

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KNOWLEDGE
Update

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

GROUP: iii, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

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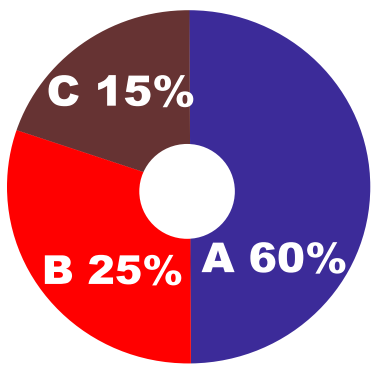
Your Preparation Quick Takes



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.

Corporate Laws & Compliance

1.0 Competition Act, 2002

- The Monopolies & Restrictive Trade Practices Act, 1969 is the first enactment to deal with competition issues and came into effect on 1st June 1970.
- The Government appointed a committee in October 1999 to examine the existing MRTP Act for shifting the focus of the law from curbing monopolies to promoting competition and to suggest a modern competition law. Pursuant to the recommendations of this committee, the Competition Act, 2002, was enacted on 13th January 2003. It was subsequently amended in 2007.
- It provides for different notifications for making different provisions of the Act effective including repeal of MRTP Act and dissolution of the MRTP Commission.
- Under the Act, Competition Commission of India and the Competition Appellate Tribunal have been established in October 2003.

1.1 Competition Act notification

Certain provisions such as those relating to establishment of the Commission, appointment of Chairperson and Members, appointment of staff, undertaking of competition advocacy have been notified.
Other provisions of the Act are yet to be notified such as those relating to adjudication of anti-competitive practices and regulation of combinations.

1.2 Objectives of the Act

The objectives of the Competition Act are to:

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

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

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

Functions of Competition Commission of India (CCI)

i) CCI shall prohibit anti-competitive agreements, which determine prices, limit or control markets, bid rigging etc.
ii) Abuse of dominance, through unfair or discriminatory prices or conditions, limiting or restricting production or development, denying market access etc.and regulate combinations (merger or amalgamation or acquisition) which cause or likely cause an appreciable adverse effect or competition through a process of enquiry.
iii) It shall give opinion on competition issues on a reference received from an authority established under any law (statutory authority)/Central Government.
iv) CCI is also mandated to undertake competition advocacy, create public awareness, promote competition, protect interest of consumers and ensure freedom of trade and impart training on competition issues.
v) Inquiry into certain agreements and dominant position by giving notices to the parties.

"Agreement" under the Act

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

1.4 Prohibition of certain agreement

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

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

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

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

1.5 Abuse of dominance

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

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

1.6 Specific instances of dominanace in Competion Act

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

2.0 Who can make a complaint?

Any person, consumer, consumer association or trade association can make a complaint against anti-competitive agreements and abuse of dominant position.

A **person** includes an individual, Hindu Undivided Family (HUF), company, firm, association of persons (AOP), body of individuals (BOI), statutory corporation, statutory authority, artificial juridical person, local authority and body incorporated outside India.

A consumer is a person who buys for personal use or for other purposes.

3.0 Orders the Commission can pass

- During the course of enquiry, the Commission can grant interim relief restraining a party from continuing with anti competitive agreement or abuse of dominant position

- To impose a penalty of not more than 10% of turn-over of the enterprises and in case of cartel - 3 times of the amount of profit made out of cartel or 10% of turnover of all the enterprises whichever is higher

After the enquiry, the Commission may direct a delinquent enterprise to discontinue and not to re-enter anti-competitive agreement or abuse the dominant position

To award compensation

To modify agreement

To recommend to the Central Govt. for division of enterprise in case it enjoys dominant position.

* Declare an agreement to be void.

* Violation of orders may result to imprisonment.

4.0 **"Combination" under the Act and regulation thereof**

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

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

4.1 **In case of combination the threshold limits are-**

For acquisition –

Individual : Combined assets of the firms (acquirer and the enterprise) is more than Rs 2000 Cr. or turnover is more than Rs 6000 Cr. (these limits are US$ 1 billion including at least Rs.1000 Cr. in India and 3 billions including at least 3000 cr. in India in case one of the firms is situated outside India).

group: The limits are more than Rs 8000 Cr or Rs 24000 Cr and US$ 4 billion including at least Rs.1000 Cr. in India and 12 billions including at least Rs.3000 Cr. in India in case acquirer is a group in India or outside India respectively.

CG has exempted enterprise whose control, shares, voting rights or assets are being acquired has assets of value of not more than Rs.350 Cr. and turnover of not more than Rs.1000 Cr.

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

4.2 **For merger/amalgamation** –

the above limit will be valid for mergers also.
Asset means written down book value and shall include intellectual property.

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

5.0 **Procedure for investigation of combinations**

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

- It shall issue a notice to show cause the parties as to why investigation in respect of such combination should not be conducted.
- On receipt of the response, if Commission is of the prima facie opinion that the combination has or is likely to have appreciable adverse effect on competition, it may direct publication of details inviting objections of public and hear them, if considered appropriate.
- It may invite any person, likely to be affected by the combination, to file his objections. The Commission may also enquire whether the disclosure made in the notice is correct and combination is likely to have an adverse effect on competition.

5.1 **Orders the Commission can pass in case of combinations**

It shall approve the combination if no appreciable adverse effect on competition is found
It shall disapprove of combination in case it forms an opinion of appreciable adverse effect on competition
May propose suitable modification in the agreement/arrangement.

5.2 **Prohibition of abuse of dominance**

i) an enterprise shall be considered to be dominant in the referent market in India, if -
(a) operate independently of competitive forces;
(b) affects the consumer, competitor or the relevant market in its favour.
ii) abuse of dominant position shall mean using of unfair or discriminatory condition in purchase or sale or price of goods and services or restricting quality of production, services or scientific development to prejudice customers, denial of market access, supplementary obligations or predatory pricing.

5.3 **Regulation of combinations**

i) no person shall enter into combination which causes or likely to cause appreciable adverse effect on competition in the relevant market in India;
ii) persons propose to enter into combination shall give notice to the Commission with 30 days of approval of the proposal by the

Board or execution of any agreement;
iii) no combination shall be effective before lapse of 210 days of giving notice or getting approval of the Commission, whichever is earlier;
iv) do not apply to bank, FI, FII or venture capital fund. 7 days notice needs to be given to Commission.

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STRATEGIC FINANCIAL MANAGEMENT (SFM)

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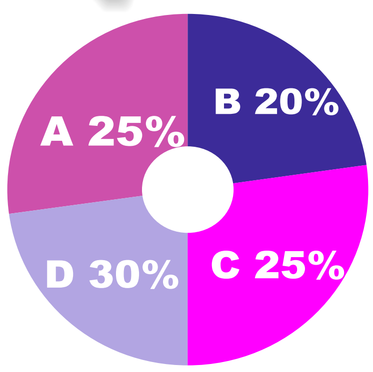
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

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

Academic Perspective of Technical Analysis

Academics have consistently been sceptical about Technical Analysis, as all their attempts to unravel the golden rule that consistently provides extra-normal returns have failed. A large number of studies, both in the Indian as well as markets the world over, using a variety of statistical procedures and trading rules have invariably concluded that no single rule can earn consistently above average returns from the market over long periods of time. A rule may work very well for a short time, but would fail miserably in the next time span, in which some other rule would have yielded extra normal returns. No one has been able to predict with certainty as to which rule is to be applied when for consistently out-performing the market.

Academics also argue that even if knowledge for always earning superior returns exists, it would never be disclosed as the one who possesses the knowledge could use it profitably. Hence, if the same is disclosed, it would no longer earn consistent superior return as everyone would then follow the same process. Therefore, it is impossible that a trading rule which yields extra normal profits with certainty would ever be known. Charting and Technical Analysis are, therefore, an attempt to build an edifice without foundation.

These arguments comprise what is known as 'market efficiency'. The market efficiency in weak form strongly suggests that the market reacts to all past information instantaneously and hence past price movements are likely to be random. However, a market efficient in the weak form but not in the semi-strong form can still provide the chance of earning superior returns based on publicly available price sensitive information (specific to a company, the industry or the economy as a whole).

This argument leads us to another approach of security analysis, known as Fundamental Analysis.

Fundamental Analysis
Fundamental analysis is an approach to determine this 'what ought to be price'. Its objective is to identify the under-priced and overpriced securities in the market place so that the investment decisions - buying and selling - can be made accordingly.

(A security is said to be under-priced if its current market price is below the 'what ought to be price' otherwise known as 'intrinsic' or 'true' value. Conversely, it is an overpriced security if its current market price is above its 'intrinsic value'.)

The fundamental analysts believe that due to temporary market disequilibrium, the current market price may deviate from its intrinsic value, but in the long run the market price would get back to its intrinsic value. As Graham, et al. have pointed out that the fundamental analysts do not invest this value with an aura of permanence. Instead, they believe that the intrinsic value is likely to change from year to year as the factors determining this value varies from time to time. However, the intrinsic value does not normally change drastically than changes in market price. So, an investor usually has an opportunity to profit from a wide discrepancy between the current market price and the intrinsic value. By buying an under-priced security, and selling an overpriced security, an investor would be able to make profits.

It may be noted that the end objective of fundamental analysis is not to make speculative profits which call for frequent buying and selling in the market and/or switching from one security of portfolio to another. Rather, it is to avoid the risk of loss from buying an overpriced stock and selling an under-priced stock. The fundamentalists view investments as long-term decisions, in fact, for such a long period.

Framework For Fundamental Analysis
Fundamental Analysis is based on the premise that a security has an intrinsic value at any given point of time. This value is a function of underlying economic values - specifically, expected returns and risk. By assessing these fundamental determinants of intrinsic value of a security, it is possible to determine an estimate of its intrinsic value. This estimated intrinsic value can then be compared to the current market price of the security. A basic assumption of fundamental analysis is that market price and intrinsic value can differ from time to time, but eventually investors will recognize the discrepancy and act to bring the two values together. Those investors who can perform good fundamental analysis and spot discrepancies should be able to realize profits by taking a suitable decision before the disparity is eliminated by the market.

The proper order in which to proceed in fundamental analysis is, first to analyse the overall economy and securities markets. Second, analyse the industry within which a particular company operates. Finally, analysis of the company should be considered. The above analysis involves making careful estimates of the expected stream of benefits and the required rate of return (this depends on the risk) for a common stock. The intrinsic value can then be obtained through the present value analysis. An alternative method of valuation is the P/E ratio or earnings multiplier approach.

Concept of Intrinsic Value

According to John Burr Williams, intrinsic value is the investment value which is the present value of all future cash payments to be paid on the security. The cash payments to the investor may be in the form of dividends, interest, liquidation proceeds, or repayment of the principal amount.

A general definition of intrinsic value is given by Graham and Dodd. They define the intrinsic value of a security as "that value which is justified by the facts, e.g., assets, earnings, dividends, definite prospects, including the factor of management (of the company). The definition perfectly covers the work of a fundamental analyst. However, the primary focus of a fundamental analyst should be on earnings and dividends; the earnings being the payment stream received by the company and the dividends being the payment stream from the company's earnings stream received by the shareholder.

The intrinsic value of a stock is estimated by discounting the company's prospective earnings stream or the shareholder's prospective dividend stream. As the prospective earnings of a company and the prospective dividends to its shareholders depend very much on the economic and industrial environment, relative importance of the company within its industry, company's financial strength, its policies, quality of assets and management, the fundamental analysts seek to establish quantitative relationships between economic, industrial, and company indicators with a view to forecast earnings and dividends. For this purpose, an economic analysis, industrial analysis, and company analysis are undertaken. The quality of assets (technology) and the quality of management are, of course, the factors about which a qualitative assessment is made which further helps the analysts to make appropriate assumptions.

It should be noted that in practice, a fundamental analyst calculates a range of intrinsic values rather than a single value. A stock is said to be mispriced (overpriced or under-priced) if its current price falls outside this range.

The traditional rule in investment analysis specifies a relationship between the intrinsic value of an asset and its current market price. Specifically, if intrinsic value exceeds current market price, the asset is undervalued and should be purchased or held if already owned. If intrinsic value is less than the current market price, the asset is overvalued and it should be sold if held, or possibly sell it short.

A problem with intrinsic value is that it is derived from a present value process involving estimates of uncertain (future) benefits and use of (varying) discount rates by different investors. Therefore, the same asset may have many intrinsic values - it depends on who, and how many, are doing the valuation. This is why, for a particular asset on a particular day, some investors are willing to buy and some to sell. The market price of an asset at any point in time is, in this sense, the consensus intrinsic value of that asset for the market.

Importance of an E-I-C Analysis

As mentioned earlier, the preferred order for fundamental security analysis is (1) the economy and market, (2) the industry and (3) the company. It is very important to assess the state of the economy and the outlook for primary variables such as corporate profits. If a recession is likely, or underway, stock prices will be heavily affected at certain times during the contraction. Conversely, if a strong economic expansion is underway, stock prices will be affected heavily, again at particular times during the expansion. Thus, the status of economic activity has a major impact on overall stock prices. It is, therefore, very important for investors to assess the state of the economy and its implications for the stock market.

In turn, the stock market impacts on each individual investor. Investors cannot very well go against market trends - if the market goes up (or down) strongly, the majority of stocks are carried along. Company analysis is likely to be of limited benefit in a period when there is a severe depression in stock market. Conversely, many investors would do well regardless of their specific company analysis because the market is up. This impact is much higher for well diversified portfolios. Another indication of the overall market impact is on earnings of a particular company. Much of the variability in a company's annual earnings is attributable to the overall economy. Thus, economy/market analysis is considered extremely important.

After completing an analysis of the economy and the overall market, an investor can decide if it is favourable to invest in common stocks. If so, the next step should be industry analysis. Industry factor is the second important component (after overall market movements) affecting the variability in stock returns. In the Indian context, the industry factor is observed to be extremely powerful in influencing the fortunes of individual companies. Changes in government policies often affect all companies in a given industry.

After an analysis of economy market and industries, the next step is to concentrate on specific companies. The bottom line in financial statements, i.e., earnings per share is considered to have a powerful impact on the price of the share. While a number of factors are important in analysing a company, investors tend to focus on earnings and dividends that are paid out of them.

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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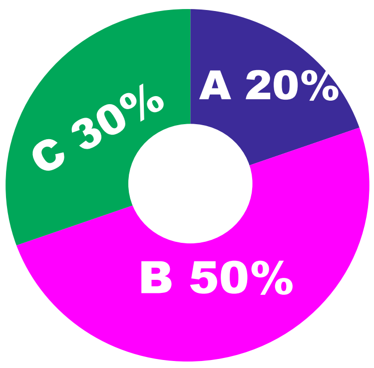


Syllabus Structure

A Cost Management **20%**

B Strategic Cost Management Tools and Techniques **50%**

C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Learning Objectives:

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

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

Cost of Quality

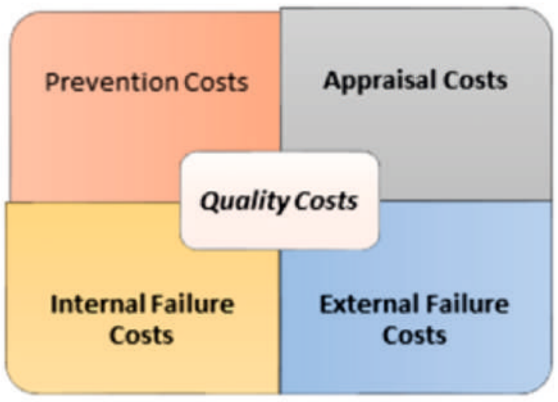
01.00 Quality

Quality is that characteristic or a combination of characteristics that distinguishes one article from the other or goods of one manufacturer from that of competitors or one grade of product from another when both are the outcome of the same factory.

The main characteristics that determine the quality of an article may include such elements as design, size, materials, chemical composition, mechanical functioning, electrical properties, workmanship, finish and appearance. The quality of a product may, thus, be defined as the sum of a number of related characteristics such as shape, dimension, composition, strength, workmanship, adjustment, finish and colour.

02.00 Cost of Quality

The reason quality has gained such prominence is that organizations have gained an understanding of the high cost of poor quality. Quality affects all aspects of the organization and has dramatic cost implications. The most obvious consequence occurs when poor quality creates dissatisfied customers and eventually leads to loss of business. However, quality has many other costs, which can be divided into two categories.



The first category consists of costs necessary for achieving high quality, which are called *quality control costs*. These are of two types: *prevention costs* and *appraisal costs*. The second category consists of the cost consequences of poor quality, which are called *quality failure costs*. These include *external failure costs* and *internal failure costs*. The first two costs are incurred in the hope of preventing the second two.

Prevention Costs: Prevention costs are all costs incurred in the process of preventing poor quality from occurring. They include quality planning costs, such as the costs of developing and implementing a quality plan. Also included are the costs of product and process design - from collecting customer information to designing processes that achieve conformance to specifications. Employee training in quality measurement is included as part of this cost, as well as the costs of maintaining records of information and data related to quality.

Appraisal Costs: Appraisal costs are incurred in the process of uncovering defects. They include the cost of quality inspections, product testing, and performing audits to make sure that quality standards are being met. Also included in this category are the costs of worker time spent measuring quality and the cost of equipment used for quality appraisal.

Internal Failure Costs: Internal failure costs are associated with discovering poor product quality before the product reaches the customer site. One type of internal failure cost is *rework*, which is the cost of correcting the defective item. Sometimes the item is so defective that it cannot be corrected and must be thrown away. This is called *scrap*, and its costs include all the material, labour, and machine cost spent in producing the defective product.

External Failure Costs: External failure costs are incurred when inferior products are delivered to customers. They include cost of handling customer complaints, warranty replacements, repairs of returned products and cost arising from a damaged company reputation.

We may tabulate the above details with suitable examples as below:

Prevention costs	Ensuring the failures do not happen Examples: • Quality training • Quality circles • Statistical process control activities • System Development for prevention • Quality improvement

Appraisal costs	Checking for failures Examples: • Testing and inspecting materials • Final product testing and inspecting • WIP testing and inspecting • Package inspection • Depreciation of testing equipment
Internal failure costs	Keeping defective products from falling into the hands of customers Examples: • Cost of Scrap (net of realization) • Cost of Spoilage • Cost of Rework • Down time due to defect in quality • Retesting
External failure costs	Costs of defects discovered by the customers Examples: • Cost of field servicing • Cost of handling complaints • Warranty repairs • Lost sales • Warranty replacements

03.00 Numerical Example
Here follows a small numerical example that provides conceptual clarity.
Problem: Zebra Limited introduced a quality improvement program and following results are observed -

Rs. In lakhs

Particulars	2019-20	2020-21
Sales	10000	10000
Scrap	100	50
Rework	650	550
Production inspection	250	325
Product Warranty	500	250
Quality Training	125	250
Materials inspection	120	90

Required:
(a) Classify the quality costs and express each class as a percentage of sales
(b) Compute the increase in the amount of profit due to quality improvement

Solution
(a) Classification of Quality Costs

Serial	Cost classification	Element	Rs, Lakhs		As % to Sales	
			2019-20	2020-21	2019-20	2020-21
1	Prevention Costs	Quality Training	125	250		
		Material Inspections	120	90		
		Sub Total	245	340	2.45%	3.40%

2	Appraisal Costs	Production Inspection	250	325	2.50%	3.25%
3	Cost of Internal Failures	Scrap	100	50		
		Rework	650	550		
		Sub Total	750	600	7.50%	6.00%
4	Cost of External Failures	Product Warranty	500	250	5.00%	2.50%
5	Total		1745	1515	17.45%	15.15%

(b) Increase in profits due to quality improvement
Quality costs incurred in 2019 -20 = Rs. 1745 lakhs
Quality costs incurred in 2020 -21 = Rs. 1515 lakhs
Total cost saving during 2020 -21 = Rs. 230 lakhs
Therefore,
Increase in profits during 2020 -21due to quality improvement = Rs. 230 lakhs

04.00 Quick Take
Quality is a key differentiator in a populated marketplace, driven by dynamic customer choices and competitive business offerings.

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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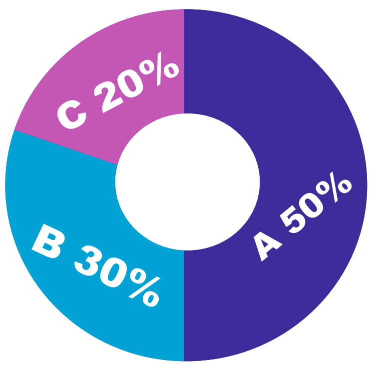
Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Case StudyAnalysis **20%**

Learning Objectives:

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

Tax Planning, Tax Evasion and Tax Avoidance

Tax law reflects the complexity of modern life and the multitude of choices and options available to all taxpayers when legitimately seeking to structure their affairs. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer and means that determining the right amount of tax (but no more) that they seek to pay does necessarily requires the exercise of judgement on occasion. So long as the exercise of that judgement seeks to ensure that the taxpayer makes choices that exercise options clearly allowed by law and that they do not exploit unintended loopholes created between laws then that process of a taxpayer choosing how to structure their affairs is the process of tax planning, which is a legitimate, proper and socially acceptable act.

Thus, tax planning is a systematic evaluation of finances and investments, to reduce the tax burden in a legitimate way. It involves understanding the tax implications of various cash inflows and outflows such as salary composition, property income, home loan, investments, sale or purchase of assets, gifts and interest-bearing deposits, to draw up an appropriate investment strategy that allows realization of financial goals while at the same time reducing tax liability to minimum.

It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. The two basic approaches of tax planning are:

1. ***Reducing taxable income***: As a rule, higher the income or profit, higher the tax liability on such income or profit. Gross income is total profits or income from all sources, and taxable income is such gross income less adjustments allowable under various tax laws and other provisions. Such adjustments bases itself on the nature of income and expenditure. Opting for the income or expenditure heads that allows maximum set-offs from the gross income reduces taxable income, and by extension tax liability.
2. ***Deferring payment of taxes to the extent possible***: An underestimated dimension of tax planning is timing investments and financial transactions so that the tax liability for such transactions arises at the farthest possible time. While this does not reduce the amount of tax payable, it delays tax outgo, thereby effectively providing interest-free cash on hand. Individuals may not need to resort to such a strategy, but delayed pay-out is valuable for small businesses that very often face cash flow difficulties.

The goal of tax planning is to arrange your financial affairs so as to minimize your taxes. It is the planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act

Objectives of Tax Planning

Tax planning is an exercise undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. The objectives of tax planning cannot be regarded as offending any concept of the taxation laws and subjected to reprehension of reducing the inflow of revenue to the Government's coffer, so long as the measures are in conformity with the statue laws and the judicial expositions thereof. The basic objectives of tax planning are:

a. ***Reduction of Tax liability***

Tax law provides multiple choices and options to taxpayers. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer. However, due to lack of awareness of legal requirements, in many a cases, a taxpayer may suffer heavy taxation. Through proper tax planning and awareness, a tax payer may reduce such heavy tax burden.

b. ***Minimisation of litigation***

In the matter of taxation, the tax payers will try to pay the least tax and on the other hand, the tax administrator will attempt to extract the maximum. This conflict behaviour may results into litigations. However, where proper tax planning is adopted by the tax payer in conformity with the provisions of the taxation laws, the incidence of litigation can be minimised. This saves him from the hardships and inconveniences caused by the unnecessary litigations.

c. ***Productive investment***

A tax payer may reduce heavy tax burden through proper tax planning. Such reduction results into reduction in cash-outflow. In the days of credit squeeze and dear money conditions, even a rupee of tax decently saved may be taken as an interest-free loan from the Government, which perhaps, an assessee need not repay. Such retained cash can be utilised in other productive venture which also provide additional earning to the taxpayer. That means, proper tax planning is a measure of proper utilisation of available resources which in turn maximise the cash-inflow and minimise the tax burden.

*d. **Healthy growth of economy***

The growth of a nation's economy is synonymous with the growth and prosperity of its citizens. In this context, a saving of earnings by legally sanctioned devices fosters the growth of both, because savings by dubious means lead to generation of black money, the evils of which are obvious. Conversely, tax-planning measures are aimed at generating white money having a free flow and generation without reservations for the overall progress of the nation. Tax planning assumes a great significance in this context.

*e. **Economic stability***

Tax planning results in economic stability by way of:

(i) productive investments by the tax payers; and

(ii) harnessing of resources for national projects aimed at general prosperity of the national economy and reaping of benefits even by those not liable to pay tax on their incomes.

Essentials of Tax Planning

Following are the essentials of tax planning:

- Uptodate Knowledge of tax laws alongwith circulars, notifications, clarifications and Administrative instructions issued by the CBDT.
- Disclosure of full and true material information
- Avoid sham transactions or make-believe transactions or colourable devices
- Foresight of future development or changes and enterprise's goal.

Types of Tax Planning

The tax planning exercise ranges from devising a model for specific transaction as well as for systematic corporate planning. These are:

(a) Short-range and long-range tax planning: Short-range planning refers to planning to achieve some specific or limited objective of particular fiscal year. E.g., an individual assessee whose income is likely to register unusual growth in particular year as compared to the preceding year, may plan to subscribe to the PPF/NSC's within the prescribed limits in order to enjoy substantive tax relief. By investing in such a way, he is not making permanent commitment but is substantially saving in the tax. Long-range planning on the other hand, involves entering into activities, which may not pay-off immediately. E.g., when an assessee transfers his equity shares to his minor son he knows that the Income from the shares will be clubbed with his own income. But clubbing would also cease after his son attains majority.

***(b) Permissive tax planning*:** Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.

***© Purposive tax planning*:** Purposive tax planning is based on the basis of circumvention of the law. The permissive tax planning has the express sanction of the Statute while the purposive tax planning does not carry such sanction. E.g., If an assessee manages his affairs in such a way that his income is taxable in hands of other person without attracting clubbing provision, such a plan would work in favour of the tax payer because it would increase his disposable resources.

Ethical way of reducing tax

Tax planning is an art of logically planning one's financial affairs, in such a manner that benefit of all eligible provisions of the taxation law can be availed effectively so as to reduce or defer tax liability. As tax planning follows an honest approach, by conforming to those provisions which fall within the framework of the taxation law. However, many time in the name of planning, assessee misleads the law, with / without making an offence. And to do so, the tax payer uses any scheme or arrangement, which reduces, defers and even completely prevents the payment of tax. This may also be done by shifting of tax liability to another person, so as to minimise the incidence of tax.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, submitting misleading information, falsification of accounts and willful violation of the provisions of the Income-tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases. It is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation. It is a grave problem in a developing country like ours as it leads to a creation of a 'resource crunch' for developmental activities of the State.

Tax avoidance is an exercise by which the assessee legally takes advantages, with malafide motive, of loopholes in the Act. Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is a practice of dodging or bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. E.g. if A gives gift to his wife, the income from the asset gifted will be clubbed in the hand of A. But to avoid this clubbing provision "A" decides to give gift to B's wife and B reciprocates it by giving gift to A's wife. This is not tax planning but tax avoidance. Most of the amendments are aimed to curb such loopholes.

The Direct Taxes Enquiry Committee (Wanchoo Committee) has tried to draw a distinction between the two items in the following words.

"The distinction between 'evasion' and 'avoidance', therefore, is largely dependent on the difference in methods of escape resorted to. Some are instances of merely availing, strictly in accordance with law, the tax exemptions or tax privileges offered by the government. Others are maneuvers involving an element of deceit, misrepresentation of facts, falsification of accounting

calculations or downright fraud. The first represents what is truly tax planning, the latter tax evasion. However, between these two extremes, there lies a vast domain for selecting a variety of methods which, though technically satisfying the requirements of law, in fact circumvent it with a view to eliminate or reduce tax burden. It is these methods which constitute "tax avoidance".

The Royal Commission on Taxation for Canada has explained the concept of tax avoidance as under:

"Tax Avoidance" will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provisions or lack of provisions of law. It excludes fraud, concealment or other illegal measures.

Line of demarcation

The line of demarcation between tax avoidance and tax planning is very thin and blurred. There are two thoughts about tax avoidance –

a) As per first thought it is legal. Such thought is also supported by various judgments of the Supreme Court, some of them are as follows -

Helvering vs. Greggory **(1934)**

"Anyone may so arrange his affairs that his taxes shall be as low as possible. He is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

IRC vs. Duke of Westminster **(1936)**

"Taxpayer is entitled to so arrange his affairs that the tax under the appropriate Act is less than what otherwise it could be."

Inland Revenue Commissioners vs. Fishers Executors **(1958)**

"The highest in authority, have always recognized that the subject is entitled so to arrange his affairs as not to attract taxes imposed by the Crown, so far he can do so within the law, and that he may legitimately claim the advantage of any express terms or any omissions that he can find in his favour in taxing Act. In doing so, he neither comes under liability, nor incurs blame."

CIT vs. Raman & Co. **(1968)**

"Avoidance of tax liability by so arranging commercial affairs that the charge of tax is distributed, is not prohibited. A taxpayer may resort to a device to divert the income before it accrues or arises to him. Effectiveness of the device depends not upon considerations of morality, but on the operation of the Income-tax Act."

Smt. C. Kamala vs. CIT **(1978)**

"It is quite possible that when a transaction is entered into in one form known to law, the amount received under that transaction may attract liability under the Act and if it is entered into in another form which is equally lawful, it may not attract such tax liability. But when the assessee has adopted the latter one, it would not be open to the court to hold him liable for tax."

CWT vs. Arvind Narotham **(1988)**

"It is true that tax avoidance in an underdeveloped or developing economy should not be encouraged on practical as well as ideological grounds. One would wish….. that one could get the enthusiasm ….. that taxes are the price of civilization and one would like to pay that price to buy civilization. But the question which many ordinary taxpayers very often, in a country of shortages with ostentatious consumption and deprivation for the large masses, ask is, does he with taxes buy civilization or does he facilitate the waste and ostentation of the few. Unless ostentation and waste in Government spending are avoided or eschewed, no amount of moral sermons would change people's attitude to tax avoidance."

b) As per second thought it is not a legal way to reduce tax burden and it should be prohibited.

McDowell & Co. Ltd. vs Commercial Tax Officer **(1985)**

Supreme Court observed - "we think time has come for us to depart from Westminster principle….tax planning may be legitimate provided it is within the framework of law. Colourable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honourable to avoid the payment of tax by resorting to dubious methods. It is the obligation of every citizen to pay the honestly without resorting to subterfuges."

CIT vs B.M. Kharwar **(1969)**

Supreme Court held – "the taxing authority is entitled and is indeed bound to determine the true legal relation resulting from a transaction. If the parties have chosen to conceal by a device the legal relation, it is open to the taxing authorities to unravel the device and to determine the true character of relationship. But the legal effect of a transaction cannot be displaced by probing into substance of the transaction."

Justice O. Chinnappa Reddy of Supreme Court has, while briefing the evil consequences of tax avoidance in *Mc.Dowell & Co. Ltd. -vs.- CTO*, observed that one such evil consequence is the ethics (or the lack of it) of transferring the burden of tax liability to the shoulders of the guideless, good citizens from those of artful dodgers. As regards the ethics of taxation, he observed:

"We now live in a welfare State whose financial needs, if backed by law, have to be respected and met. We must recognize that there is behind taxation laws as much moral sanction as behind any other welfare legislation and it is a pretence to say that avoidance of taxation is not unethical and that it stands on no less moral plane than honest payment of taxation".

A similar observation was made by Lord Chancellor *in Latilla vs. Inland Revenue Commissioner (1943) 011 ITR (E.C) 0078:*

"There is, of course no doubt that they are within their legal rights but that is no reason why their efforts, or those of the professional gentlemen who assist them in the matter, should be regarded as a commendable exercise of ingenuity or as a discharge

of the duties of the good citizenship. On the contrary, one result of such methods, if they succeed, is of course to increase pro tanto the load of tax on the shoulder of the body of good citizens who do not desire or do not know how to adopt these maneuvers."

Distinguish between Tax Planning, Tax Evasion, Tax Avoidance and Tax Management

Difference between tax planning, tax avoidance, tax evasion & tax management

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee.	It is a procedure to comply with the provisions of the law.
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it.	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organisation.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Approach	It is futuristic and positive in nature. The planning is made today to avail benefits in future.	It is futuristic but short term in nature, as loophole of the law will be corrected in future by amendments of the law.	It is concerned with past and applied after the liability of tax has arisen. It is done with negative approach to avail benefits by killing the moral of law.	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of return, etc.) & future (corrective action).
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It overrules the law.	It implements the law.
Practice	It is tax saving.	It is tax hedging.	It is tax concealment.	It is tax administration.
Need	It is desirable	It is avoidable	It is objectionable	It is essential.
Morality	It is moral in nature.	It is immoral in nature	It is illegal.	It is duty.

Exercise

State whether the following acts can be considered as tax evasion or tax management or tax planning:

(a) Amit paid life insurance premium of ₹ 10,000 on the life of himself and claim entire amount as deduction u/s 80C.

(b) Bikash received remuneration of ₹ 54,000 for acting as a visiting faculty which he did not furnish in his return.

(c) Chandrani submitted her return within the time specified u/s 139(1).

(d) Dulal donated ₹ 10,000 to PM's National Relief Fund and enjoyed deduction in full u/s 80G.

(e) Era deposited ₹ 1,00,000 in SBI in the name of her daughter (age 4 years) and interest on such deposit has not clubbed in her hand.

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YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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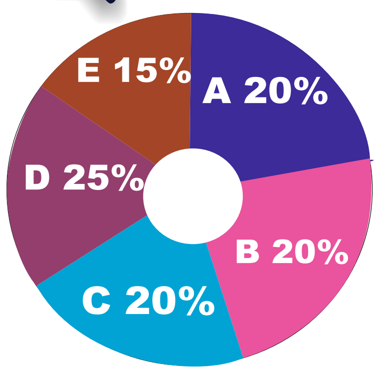
Your Preparation Quick Takes



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.

Corporate Financial Reporting

In this issue I like to discuss DCF model for business and share valuation.

Discounted Cash Flow (DCF) model
It indicates the fair market value of a business (or Equity) based on the value of cash flows that the business (or Equity) is expected to earn in future. This method involves the estimation of Net Operating Profits Adjusted Tax (NOPAT) for the projected period, the business's requirement of reinvestment in terms of capital expenditure and incremental working capital and appropriate cost of capital that reflects the risks of the corresponding return.

Merits of DCF model:
(i) Cash flows are unaffected by any differences of accounting policies, principles, conventions and methods.
(ii) It provides the intrinsic or economic value unaffected by market forces.

De-merits of DCF model:
It is hard
(i) to estimate future cash flows, and
(ii) to apply appropriate rate of discounting

Valuation
Computation of value per share = Value of Equity/ No. of equity shares
Value of Equity = Value of the business less value of Debt Capital
Value of business = Aggregate of future cash flows (or Free Cash flows) discounted at its present worth

Computation of Cash Flows
Let us see how cash flows are computed so that future cash flows can be projected.
a. Cash Flows (CF) = NOPAT + Depreciation, amortisation, impairment etc. (non-cash expenses charged against profits) +(-) Decrease (Increase) in non-cash working capital
Net Operating Profits Adjusted Tax (NOPAT) = EBIT*(1 -t)
EBIT (Earnings Before Interest and Tax) is Net Operating Profits.
t = Tax Rate = Tax expenses/Earning Before Tax (EBT)
b. Free Cash Flows are of two types: (A) Free Cash Flows to the Firm (FCFF) and (B) Free Cash Flows to the Equity (FCFE)
b1. FCFF = CF – Capex (Capex means capital expenditures made within the business for expansion, replacement etc.)
b2. FCFE {Free Cash Flow to the Equity} = FCFE = Net Income – Increase in non-cash WC – Net Capex + Net Debt Issue
Or, FCFE = FCFF – Interest net of tax + Net Debt Issued
Interest net of tax = Interest*(1 – t)

Terminal Value (TV)
Terminal Value or continuing value: As business is a going concern, at the end of the limited period for which future cash flows (CF, FCFF or FCFE) are projected, the terminal value has to be computed by aggregating the discounted cash flows from that moment till infinity. Thus, Terminal Value = ∑DCF commencing from the end of projection period continued up to infinity.
Two assumptions are made for finding terminal value for business valuation:
a. There is an infinite series of cash flows (CF, FCFF or FCFE)
b. Cash flows are either (a) constant or (b) growing at a constant rate

Computation
Growth rate (g) in cash flows is determined by multiplying Re-investment rate (RR) with Return on invested capital (ROIC) or return on capital employed (ROCE in absence of ROIC).
g = RR* ROIC (or, ROCE)
Re-investment rate = Re-investment/NOPAT, where Re-investment = Net change in non-cash working capital + Net Capex (where, Net Capex = Capex less Depreciation etc.)
Value of business = Aggregate of future cash flows (or Free Cash flows) discounted at its present worth = ∑DCF (for the period future cash flows are projected) + Terminal Value (Continuing Value) discounted at its present worth
Terminal Value (Continuing Value) at constant cash flows assumption = $TV_n = CF_{(n+1)}/k$, where, k is the discounting rate
Terminal Value (Continuing Value) at constant growth rate of cash flows assumption =
$TV_n = CF_{(n+1)}/(k – g)$, where, k = WACC is the discounting rate
(1.6.1) If there is no period of projected cash flows, continuing value is measured at period 0. In that case
Value of business = V_0 = Continuing Value = CF_1/k (at constant cash flows assumption)
And V_0 = $CF_1/(k – g)$ [at constant growth rate of cash flows assumption)
When there is 'n' period of projected cash flows, continuing value is measured at period 'n'. In that case
Value of business = V_0 = ∑DCF (for the years 1 to n) + TV_n discounted for 'n' years (for the cash flows from n+1 year to infinity)
Illustrative examples of Discounted Cash Flow (DCF) model:

Problem 1.

Yr 2018 2019 2020 2021 2022 ……….

CF (Rs.) 500 600 700 800 800 continued at 800

(a) Find value of the business on 01-01-2021,
(b) Find value of the business on 01-01-2020,
(c) Find value of the business on 01-01-2019,
given that WACC = 10%.

Soln: (a) From the date of valuation all future cash flows are constant at Rs. 800. The formula of Continuing value is $V_0 = CF_1/k = V_{1\text{-}1\text{-}21} = CF_{2021}/WACC$ = 800/10% = Rs. 8000

(b) From the date of valuation future cash flows for 2020 is projected at Rs 700 and at the end of the projection period on 01-01-2021 we may apply the formula of Terminal Value which we already found in part (a) at Rs. 8000. The formula of business value is

$V_{1\text{-}1\text{-}20}$ = 700/(1.1) + 8000/(1.1) [DCF for 2020 + PV of the Terminal Value]
= 7909

(c) From the date of valuation future cash flows for 2019 and 2020 are projected at Rs 600 and Rs 700 and at the end of the projection period on 01-01-2021 we may apply the formula of Terminal Value which we already found in part (a) at Rs. 8000. The formula of business value is

$V_{1\text{-}1\text{-}19}$ = 600/(1.1) 700/(1.1)^2 + 8000/(1.1)^2 [DCF for 2019 and 2020 + PV of the Terminal Value]
= **7736 (Approx.)**

Workings: (in Rs.)

	01-01-2019	2019	2020	2021 onwards continued to infinity
CF		600	700	800
Terminal Value (TV)			8000	
DCF of 2019	545.45455			
DCF of 2020	578.5124			
PV of TV	6611.5702			
$V_{01\text{-}01\text{-}2019}$	**7735.5372**			

Problem 2.

Forthcoming Year 1	Rs. Lakh
Data provided:	
EBIT	700
Depreciation	120
Capex	180
Interest	80
Increase in non-cash working capital	100
Debt Capital	3000

Further information:

Tax rate = t	25%
WACC	10%
No of equity shares	5000000
Ke	12.5%
Debt Capital of 3000 is the balance at the end after fresh issue of 140 and redemption of old debt of 90	

Find:
(a) NOPAT
(b) CF
© FCFF

(d)Value of business based on
(i) CF; (ii) FCFF
(e) Value of business when growth rate is 5% based on (i) CF; (ii) FCFF
(f) Value per share based on FCFF when constant growth rate is 5%.
(g) Value per share based on FCFE when constant growth rate is 5%.
Soln: (amount in Rs. Lakh)
(a) NOPAT = EBIT*(1 – t) = 700*(1 - 0.25) = 525
(b) CF = NOPAT + Depreciation - Increase in non-cash working capital = 525 + 120 – 100 = 545
(c) FCFF = CF – Capex = 545 – 180 = 365
(d) Value of business based on (i) CF:
Value of business = V_0 = Continuing Value = CF/wacc (at constant cash flows assumption)
= 545/ 0.1 = 5450
(d) Value of business based on (ii) FCFF
Value of business = V_0 = Continuing Value = FCFF/wacc (at constant cash flows assumption) = 365/0.1 = 3650
(e) (i) Value of business = V_0 = Continuing Value at growth rate of 5%= CF/(k – g) = 545/(0.10 – 0.05)
= 545/ 0.05 = = 10900
(ii) Value of business = V_0 = Continuing Value = FCFF/(k – g) = 365/(0.10 – 0.05)
= 365/ 0.05 = = 7300
(i) CF; (ii) FCFF
(f) Value per share based on FCFF when constant growth rate is 5%

V_0 = 7300;
Equity = V_0 – Debt Capital = 7300 – 3000 = 4300
No. of equity shares = 50 lakhs
Value per share = 4300/50 = Rs. 86
(f) FCFE = FCFF – Interest net of tax + Net Debt Issued = 365 – 80*(1 – 0.25) + (140 - 90) = 355
Value of equity = FCFE/ (Ke – g) = 355/(.125 -.05) = 355/0.075 = 4733.33
Value per share = Equity/ n = 4733.33/50 = Rs.91.67

GROUP: iv, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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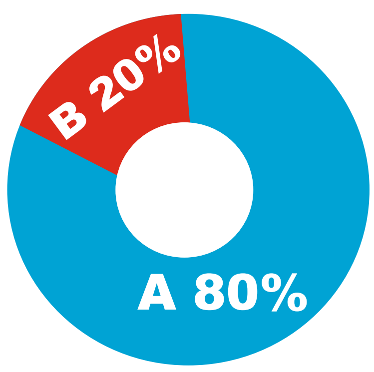
Your Preparation Quick Takes



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

Choose the correct option from the followings –

- Exempt services
- Mismatch of transactions
- Export of services
- Zero rated supply
- Letter of undertaking
- Assessment under GST Act
- Seizure and penalty
- Audit under GST

INDIRECT TAX

1. Presently which of the following service will not be considered as exempted services

(a) Service by way of transportation of goods by an aircraft from customs station of clearance in India to a place outside India is exempted supply of service.

(b) Services by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India is exempted supply of service

(c) Services of leasing of assets (rolling stock assets including wagons, coaches, locos) by the Indian Railways Finance Corporation to Indian Railways

(d) services by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India received by persons speciPed in the entry

2. In every case when discrepancy is added for the period starting from the date of availing the credit till the corresponding additions are made for mismatch of transactions the liability for payment of interest will be

(a) Supplier

(b) Recipient

(c) Both supplier and recipient

(d) No interest to be payable

3. Which of the following details not to be considered relating to the claim of reduction in output tax liability shall be matched under section 43 after the due date for furnishing the return in FORM GSTR-3B

(a) GSTIN of the supplier and recipient

(b) Credit note number and date

(c) Debit note number and date

(d) Taxable value and tax amount

4. As per 2(6) of IGST Act, 2017 which of the following will not be considered as export of service

(a) the supplier of service is located in India

(b) the place of supply of service is outside India

(c) the payment for such service has been received by the supplier of service in convertible foreign exchange or in Indian rupees wherever permitted by the Reserve Bank of India

(d) the supplier of service and the recipient of service are merely establishments of a distinct person in accordance with Explanation 1 in section 8

5. As per the IGST Act which of following will be considered 'Zero rated supply'

(a) Supply of goods or services or both to a Special Economic Zone(SEZ) developer or an SEZ unit

(b) Supply of goods or services or both for agricultural activities

(c) Supply of goods or services or both for NSDL projects

(d) Supply of goods or services or both as per the special notification of the Central Government

6. Which is not the valid reason for determination of refundable amount in case of refund of unutilised ITC on account of

(a) exports without payment of tax

(b) advance tax paid before exports

(c) supplies made to SEZ Unit/SEZ Developer without payment of tax

(d) accumulation due to inverted tax structure

7. Which of the following will not be considered as deemed exports

(a) Supply of goods by a registered person against Advance Authorisation

(b) Supply of capital goods by a registered person against Export Promotion Capital Goods Authorisation
(c) Supply of goods by a registered person to Special Economic Zone
(d) Supply of gold by a bank or Public Sector Undertaking specified in the notification No. 50/2017-Customs, dated the 30th June, 2017

8. Which of the below mentioned statement is incorrect considering the purpose of Letter of Undertakings is to ensure that owner of the ship or aircraft would

(a) employ security on the vehicle
(b) provide specific guarantee by customer against payment of duties
(c) enter an appearance acknowledge ownership
(d) pay any final decree entered against the vehicle whether it is lost or not

9. Generally what is the validity of Letter of Undertaking (LUT)?

(a) The LUT shall be valid for the whole financial year in which it is tendered
(b) The LUT shall be valid for the none months in which it is tendered.
(c) The LUT shall be valid for the six months in which it is tendered.
(d) The LUT shall be valid till the goods are exported

10. Form GST RFD-04 is being used for –

(a) Application for Refund
(b) Refund Order details
(c) Provisional Refund Order
(d) Refund Sanction/Rejection Order

11. In terms of Section 2(11) of the GST Act, "assessment" includes

(a) Self assessment
(b) Reassessment and provisional assessment
(c) Summary assessment and best judgment assessment
(d) All the above

12. When a registered person fails to furnish satisfactory answer or fails to take any corrective action against any scrutiny by the GST authority, which of the following step to be considered incorrect by department

(a) Initiate audit through a Chartered Accountant
(b) Initiate Special Audit
(c) Initiate inspection, search and seizure
(d) Issue show cause notice

13. Which one of the below mentioned reason is not correct for cancellation of registration of a registered person as per section 29(2) of the ST Act

(a) A person who contravenes the provisions of GST Act or Rules made thereunder
(b) A composition person who fails to furnish returns for 3 consecutive tax periods.
(c) A person other than composition person who fails to furnish returns for 3 consecutive months
(d) A person who has sought voluntary registration but has failed to commence business within 6 months.

14. As per Notification No. 27/2018 central Tax, dated 13.06.2018,after the seizure which of the goods not required to be disposed off by the proper officer due to the considerations of being perishable or hazardous nature, depreciation in value with the passage of time, constraints of storage space

(a) Raw (wet and salted) hides and skins
(b) Newspapers and periodicals
(c) Sandalwood
(d) Paints for non ferrous metals

15. As per Section 132(1) clause (ii) of GST Act up to 3 years imprisonment can attract for tax evasion above

(a) Rs 100 lakhs
(b) Rs 200 lakhs
(c) Rs 300 lakhs
(d) Rs 500 lakhs

16. . As per Section 72 of the GST Act which of following officers are not empowered and not required to assist the proper officer in execution of this act

(a) All officers of Police
(b) Railway Officer
(c) All officers of Army , Navy and Air Force
(d) Officers engaged in the collection of land revenue including village officers

17. In which of the following situation proceedings may be initiated if a consignment of goods is accompanied with an invoice or any other specified document and an e-way bill

(a) Spelling mistakes in the name of the consignor or the consignee but the GSTIN whichever is applicable, is correct.
(b) Error in the address of the consignee including the locality and other details of the consignee
(c) Error in one or two digits of the document number mentioned in the e-way bill.
(d) Error in one or two digits of the vehicle number

18. Which type of audit is not envisaged by GST Act

(a) Audit by a Chartered Accountant or a Cost Accountant
(b) Audit by Tax Authorities
(c) Special Audit
(d) Internal Audit

19. Which one of the following is requirement for a Special Audit under Section 66 of the CGST Act, 2017

(a) It is conducted by officers of the department authorised by the commissioner
(b) Prior notice of 15 days is required
(c) The conclusion of the audit is given in 3 months, further extension of 6 months is allowed
(d) Audit reports should be shown to deputy/ assistant commissioner

20. As per FORM GSTR-9C under GST Audit apart from Basic details which of the following do not form part of Reconciliation Statement

(a) Reconciliation of turnover declared in the Audited Annual Financial Statement with turnover declared in Annual Return
(b) Reconciliation of tax paid
(c) Reconciliation of Input Tax Credit (ITC)
(d) Reconciliation between Auditor's recommendation and last Financial Statements

ANSWERS

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

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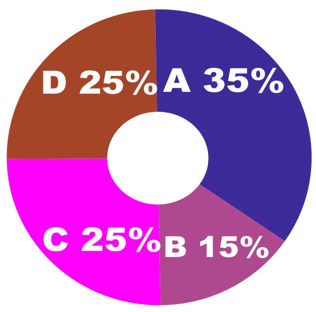
He can be reached at:
sonthalia_ss@yahoo.co.in

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Reconciliation of Profit as per Cost Accounts and Finance Accounts

Question

The Cost Accountants of Bharat Steel Ltd. has arrived at a Profit of Rs. 49,46,990 based on Cost Accounting Records for the year ended March 31, 2022. Profit as per Financial Accounts (F/A) is Rs. 52,24,100. On review of financial accounts, the following entries have been observed.

Sl. No.	Particulars	Value in Rs.
1.	**Cost of materials consumed includes:-**	
I	Demurrage charge on Raw materials	2,23,000
ii.	Payment relates to a purchase of an item of raw material received and consumed in last year but provision could not be made erroneously.	2,78,000
iii.	Raw Material brought from USA valued in F/A as on date of payment. Values as on the date of payment- Values as on the date of transaction- Values as on the date of receipt of material-	 2,15,000 2,40,000 2,50,500
2.	**Other income in F/A includes:-**	
I	Profit on Sale of Fixed Assets	2,05,000
ii.	Bad debts recovered	45,850
3.	Loss on Sale of Investments	33,600
4.	**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
5.	Rebate allowed to customers	1,28,550
6.	Donation Paid	75,000
7.	Insurance Claim received for natural disaster	2,08,700
8.	Profit from Retail trading activity	80,430
9.	**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 Laws	65,600
7.	Administration cost includes CSR Expenses	3,50,000
8.	Interest Income from Inter-Corporate Deposits	1,61,500
9	Decrease in value of Closing WIP and Finished goods inventory:-	
	as per Financial Accounts	82,12,430
	as per Cost Accounts	90,02,500

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2022.

Answer:

Reconciliation of Profit between Cost and Financial Accounts for the year ended March 31, 2022

Particulars	Amount (Rs.)	Amount (Rs.)
Profit as per Financial Accounts		**52,24,100**
Add: Non Cost Expenses		
Demurrage charge on Raw material	2,23,000	
Cost of Material includes prior period adjustment	2,78,000	
Loss on Sale of Investments	33,600	
Arrear salary relating to 2016-17	85,760	
Penalty due to noncompliance to Labour Laws	65,600	
Rebate allowed to customers	1,28,550	
Donation Paid	75,000	
CSR Expenses	3,50,000	
		12,39,510
Less: Non Cost Income		
Profit on Sale of Fixed Assets	2,05,000	
Bad debts recovered	45,850	
Interest Income from Inter-Corporate Deposits	1,61,500	
Insurance Claim received for natural disaster	2,08,700	
Profit from Retail trading activity	80,430	
Exchange Gain [Difference in valuation of imported raw material (2,40,000-2,15,000)]	25,000	
		7,26,550
Less - Decrease / difference in value of Closing WIP and Finished goods inventory :- (90,02,500 - 82,12,430)		7,90,070
Profit as per Cost Accounts		**49,46,990**

Note:

1. As per CAS-6, 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.

2. As per CAS-7:
i. Employee cost includes benefits paid to temporary, part time & contract employees.

ii. Employee cost includes benefit paid to employee such as free housing, free conveyance etc.

iii. Overtime premium, recruitment cost & training cost are part of employee cost.

GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta
He can be reached at:
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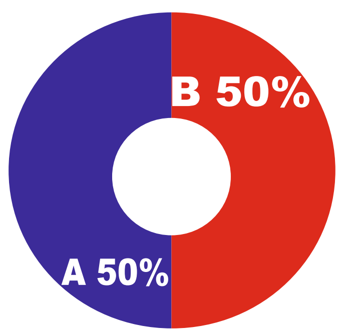
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

Strategic Performance Management and Business Valuation

Factors Affecting Pricing Decisions of a Product or Service

Generally, marketers consider the following factors in setting price of a product or service:

1. **Target customers**: Price of product depends on the capacity of buyers to buy at various prices, in other words, influence of price elasticity of demand will be examined.
2. **Cost of the product**: Pricing is primarily based on, how much it costs to produce and market the product, i.e., both the production and distribution cost.
3. **Competition:** Severe competition may indicate a lower price than when there is monopoly or little competition.
4. **Legal aspects:** Government authorities place numerous restrictions on pricing activities.
5. **Social responsibility:** Pricing affects many stakeholders, including employees, shareholders and the public at large. These should be considered in pricing.
6. **Market position of the firm**: The position of the market may also influence the pricing decision of the firm. It is only why the different producers of identical products sell their products at different prices.
7. **Distribution channel policy**: The prices of products will also depend upon the policy regarding distribution channel. The longer the channel, the higher would be the distribution costs and consequently higher the prices.
8. **Price elasticity of demand**: Price elasticity refers to consequential change in demand due to change in price of the commodity. It is the relative responsiveness to the changes in price. As there an inverse relationship between price and demand for product, the demand will increase with fall in price.
9. **Economic environment**: In recession, prices are reduced to a sizeable extent to maintain the level of turnover. On the other hand, prices are charged higher in boom period to cover the increasing cost of production and distribution.

MCQs
Choose the correct option from amongst the four alternatives given:
(Each question carries 1 mark)

1. **The necessary condition for equilibrium position of a firm is**
   (a) MC>MR
   (b) MC> Price
   (c) MC = MR
   (d) MC = AC

2. **The Cost function of a firm is given by C = x3 - 4x2 + 7x. Find at what level of output the average cost is minimum and what would be the minimum average cost.**
   (a) 2,3
   (b) 4,5
   (c) 1,4
   (d) 8,9

3. **An investment is risk free when actual returns are always ------- the expected returns.**
   (a) Equal to
   (b) Less than
   (c) More than
   (d) Depends upon circumstances

4. **It is assumed that M. Ltd., would realize Rs.40 million from the liquidation of its assets. It pays ₹ 20 million to its creditors and Preference Shareholders in full and final settlement of their claims. If the number of Equity Shares of M. Ltd. is 2 million, the Liquidation per Share would be:**
   (a) ₹7 per Share
   (b) ₹8 per Share
   (c) ₹10 per Share
   (d) ₹12 per Share

5. **Which one of the following is not a measure related to Balanced Score Card?**
(a) Financial
(b) Customer Satisfaction
(c) Internal Processes
(d) Gap Analysis

Answers:

Question No	(1)	(2)	(3)	(4)	(5)
Answer	(b)	(a)	(a)	(c)	(d)

Example 1

The Cost Function of a particular firm is $C= (1/3) X^3 - 5X^2+75X+10$
On the basis of the aforesaid information, you are required to answer the following;

(i) At which level the Marginal Cost attains minimum:
(a) 5 units
(b) 10 units
(c) 8 units
(d) 7 units

(ii) In order that the MC to be at minimum, its second order derivative value must be:
(a) Negative
(b) Zero
(c) None of this
(d) Positive

(iii) What is the marginal cost:
(a) ₹ 30
(b) ₹ 40
(c) ₹ 50
(d) ₹ 80

Answer:

Question No	(i)	(ii)	(3)
Answer	(a)	(d)	(c)

Example 2

The Cost function is:
$C = 300X - 10X^2 + 1/3\,X^3$
On the basis of the aforesaid information, you are required to answer the following;

(i) Output at which Marginal Cost is minimum-
(a) 9 units
(b) 10 units
(c) 15 units
(d) 20 units

(ii) Output at which Average Cost is minimum-
(a) 10 units
(b) 12 units
(c) 15 units
(d) 20 units

(iii) Output at which Marginal Cost = Average Cost-
(a) 10 units
(b) 12 units
(c) 14 units
(d) 15 units

Answer:

Question No	(i)	(ii)	(3)
Answer	(b)	(c)	(d)

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

01 Read Study Notes, MTPs,E-Bulletin, Work Books, Attend Webinar sessions

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Submissions

Dear Students,

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

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

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

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

Updation of E-Mail Address/Mobile:

Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Student may update their E-Mail id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.

Message from

Directorate of Studies

Dear Students,

Heartfelt wishes to you for passing the exam!! All who passed out have been sincere and diligent since day one and never failed to amaze us with your dedication. You've proved that dedication and learning end at resulting in excellent outcomes. Best wishes for achieving the best place. So proud to call you our student! Congratulations and best wishes for your life. May your future be filled with many great achievements like this.

Those who could not pass out please be steady and we believe, everyone has intellect and presence of mind. But only a few students who can deliver the right thing at right time and with right courage become the winner in the examination. So, please try to deliver your best in your next examination.

We from the Directorate of studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. If you sincerely follow those tips, we hope, you will be successful in your endeavor.

To celebrate **75 years of independence and commemorate it as India is celebrating, 'Azadi Ka Amrut Mahotsav'**, across the country and amid the coronavirus pandemic and also organizing various events. India's freedom fighters fought a long and hard struggle for the country's independence from the British and, for years, their words have inspired us. We hope that our students will also participate and pay their homage to the freedom fighters.

Certain general guidelines are listed below and which will help you in preparing yourselves:

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

Please refer the link mentioned below :

https://icmai.in/studentswebsite

- Don't give up
- Don't give in
- Don't give out

You can win!

The Institute is pleased to inform that the University Grants Commission (UGC) Ministry of Education, Govt. of India has announced that CMA qualification be Considered equivalent to PG Degree.

GOOD LUCK

Be Prepared and Get Success;

Disclaimer:

Although due care and diligence have been taken in preparation and uploading this E-bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-bulletin.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Few Snapshots

CMA P. Raju Iyer, President along with CMA (Dr.) Balwinder Singh, Past President & Council Member and CMA B.B. Goyal, Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI, extending greetings to Smt. Nirmala Sitharaman, Hon'ble Union Minister of Finance and Corporate Affairs on 11th April, 2022.

Glimpses of the MOU signing ceremony between the Institute of Cost Accountants of India and Maharaja Sayajirao University Baroda on 30th March, 2022.

CMA Vijender Sharma, Vice President of the Institute along with CMA (Dr.) Sreehari Chava, Convenor, Task Force on Agri Cost Management and CMA N Raveendranath Kaushik, Member, Task Force on Agri Cost Management of the Institute extending greetings to Kum. Shobha Karandlaje, Hon'ble Union Minister of State for Agriculture & Farmers Welfare.

Valedictory Session of Pre-Placement Orientation Programme at Kolkata HQ on 26-03-2022

Glimpses of the MOU signing ceremony between the Institute of Cost Accountants of India and Ravenshaw University on 21st March, 2022.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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